MICROFINANCE AND SHG MODELS

A PERFORMANCE EVALUATION

Edited By:

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Foreword By:

Late-Premananda Deb Nath

&

Uma Deb Nath

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Corporate Governance, Ethics and Business Reporting Practices

S. P. Srivastava
Twinkle Prusty
Alok Kumar

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Knowledge is Our Business

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Dedicated to Most Revered

Bharat Ratna Pt. Madan Mohan Malaviya Jee
Founder - BHU Varanasi

On the Auspicious Occasion of

Centenary Celebration of Banaras Hindu University
Platinum Jubilee Celebration of Faculty of Commerce,
BHU, Varanasi

Preface

Corporate Governance and ethics lies at the heart of the way businesses are run. Often defined as the 'way businesses are directed and controlled' or as the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders (customers, management, employees, financiers, government, and the society). The corporate governance represents the framework, inclusive of values, morality under which conditions the business decisions are taken. Moral decisions that are made by us in the course of performance of our duties considered as ethical practices. Ethics states the study of characteristics of morals and it also deals with the moral choices that are made in relationship with others. Business ethics comprises of the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximise profits against the needs of the stakeholders. To address these distinct aspects of businesses, rules-articulated and implicit are developed to guide the businesses to earn profits in sustainable and responsible way without harming individuals or society as a whole.

The dynamics of corporate governance, ethical practices and the changing business reporting environment assumes a direct impact on the disclosure practices of information. Reporting practices is a means by which reporting entity demonstrates its accountability for the resources entrusted to it and maintaining stakeholder relationships. Business reporting is a process of information dissemination that helps the users to appraise, assess and evaluate the entity's stewardship performance, governance as well as social and economic impact. It is essential to know the divergent aspects of corporates to understand it's dynamic on its own environment with its historical developments in India and the reporting practices which prevails in business world today.

This edited volume book is intended and will stand to the expectations of academicians, practitioners and research scholars of commerce, management, social science and other related subjects, especially for those who wish to develop an understanding about corporate governance, ethics and business reporting practices. We shall deem our labours amply rewarded if the ideas contained in the book stay with them for some length of time and create in them the desire to further explore the dynamic field of corporate governance, ethics and business reporting practices.

—Editors

Acknowledgements

It gives us immense pleasure to bring forth this edited book titled "Corporate Governance, Ethics and Business Reporting Practices" on the auspicious occasion of Centenary Year *Celebration of our esteemed institution Banaras Hindu University & Platinum Jubilee Celebration of Faculty of Commerce*, focusing on contemporary issues in ethics, governance & reporting practices.

Though it is difficult to mention all those names who have directly or indirectly contributed while editing and compilation of this book in exhaustive manner, some prominent ones have however, been acknowledged in the text. We acknowledge the contributions and constant encouragements of our teachers, research Scholars and colleagues, whose queries & discussion helped us to give shape to this volume of book. We also express our deep gratitude to our institution, Faculty of Commerce, Banaras Hindu University, Varanasi for providing us better environment to facilitate in bringing out this book.

We have extensively used the research papers and articles provided by eminent scholars and distinguished academicians in the field to whom we gratefully acknowledge our indebtedness. We would like to put on record our appreciation for the encouragement and support that we received from Prof. Asha Ram Tripathi, Head & Dean, Faculty of Commerce, Banaras Hindu University.

We would also like to extend our special thanks to all members of the team of dedicated professionals at the Dominant Publishers & Distributors, our publisher for this book, especially Mr. Amarjeet Saini, who extended all possible help in ensuring the timely publication of this book.

We thank you all for your help in form of contribution in shaping this edited volume book.

—Dr. Twinkle Prusty

—Alok Kumar

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chapter 1

Corporate Governance and the Value System-Engulfing India's Vision on Innovation

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INTRODUCTION

In the domain of conglomerate governance and value system, the 21st century has abetted challenges with multi-disciplinary approach and an all inclusive growth towards a more contented global society. The role of self- governance is a concept that is rooted in the difference between rules and principles followed by inner self. By destroying the selfish motives and developing selfless inner consciousness within the managers and therefore the corporates, it is the internal self-control, self-trained and self-confidence where a value added system thrives and grows to develop in an incongruent world. Mahatma Gandhi was so much comprehensible in this vision of self-governance that changed into realizing the power and unity of the public during Swadeshi Movement. By promoting indigenous products in place of imported goods, which ultimately made the country self sufficient, as a part of burgeoning generation, thus, incorporating the idea of self- governance while instituting the independent India. He was one of those colossal protagonists who laid the foundation of modern Indian nationalism, the noble edifice of India's freedom. He had widely acclaimed achievements to his credit, chief among them being the founder and architect of the value system, proliferating non-violence for unprejudiced training and development of the body, intellect and the ardor of every individual. The visionary founder also, had a dream to see value added

India's industrial structure and wanted to create the 'Priceless Indian citizens of the World', inspired by the ideology of '*Vasudhaiva Kutumbakam*'. It is contrary to what Rudyard Kipling once said, "*The East is east and the West is west and never the twain shall meet*". But, the illustrious creator of the sovereign India had a desire to blend the best of the East with the best of the West to create a new environment, which may allow the future mankind to live and flourish without discord. This paper focuses on India's vision on self governance and creation of a value system with accord and safeguarding the knowledge capital through proper utilization of resources bringing in a constructive social change.

Key Words: Governance, Value System, Corporate India

THE VISION ON INNOVATION

The greatness of the vision depends mostly on its farsightedness, its clarity, its magnitude, and its wide canvas. Normally, the farther one looks into the future, hazier is the picture. While the ordinary sees nothing but the dark clouds, the visionary sees a bright star shining in the distance. He then paints it for others with all the clarity on a wide canvas. The sovereign and modern India can be built by engineers, doctors, scientists & other professionals, only when they are imbued with high character, probity and honors. The great visionaries of India strongly felt that all of them could be nurtured in a beautiful, big garden in order to meet the future immense needs of the '*Resurgent Modern India*' that combines the best thought and culture of the east with the best science & technology of the west. Just as in the first decade of the 20th century, the country was in abysmal depths and independence appeared like a distant dream, the current revelations seems to be having a sleepy dream fading in the dawn and the wakeful grand dream getting clearer by the day, thrusting into an explicit shape while becoming a smoldering passion. A suitable mission is needed to be budding out of the vision that soon consumes the individual's entire life towards its fulfillment.

The self-governing India is intended to conform to the best ideals of clairvoyants' formulation aiming simultaneously at the discovery and advancement of truth, the development of character, the making of gentleman and the harmonious cultivation of the intellect, the heart and aesthetic leaders and efficient training for creation of esteemed managers. The report of the first indian industrial conference held in Banaras in 1905, states the appalling statement as, "India has untold wealth, wonderful natural resources, whether agricultural mineral or industrial; but, they are to a great extent dormant. It has a coal of an excellent quality, it has petroleum, large quantities of timber and charcoal, and it has iron of a purity that would make an English iron master's mouth water, spread wholesale over the country in most places to be had by light quarrying over the surface. It has chrome iron capable of making the finest Damascus blades, magniferrous ores and splendid hematite's in profusion. It has gold, silver, antimony, precious stones, asbestos; soft wheat, equal to the finest Australian and hard wheat, equal to the finest Kabanka. It has food grains of every description: oil- seeds, tobacco, tea, coffee, cocoa, sugar, spices, lac-dyes, cotton, jute, hemp, flax, coir and fibers of every description - in fact, products too numerous to mention, and yet India is stricken with poverty. This situation resembles with Midas starving amidst heaps of gold." This description makes a very disappointing reading, but sometimes truth is alien than even fiction. Baron Leibig has also said, "Perfect agriculture – the foundation of all trade and industry – is the foundation of the riches of the State." This also agrees well with the thoughts of Sir M. Vishvesvaraiya, who stressed, "Heavy industries at present time are of the greatest value for rapid economic development of this country. They form the backbone of a healthy national economy and the balance-wheel of all large scale business." He also regretted and said, "The training given is of too general a character for the solution of practical problems or as an introduction to practical life." In the present economic scenario of India, technical and scientific managers cannot be expected to make any real progress until there are well-organized instructions in the principles and practice of the principal provisions of production during the era of industrial development making them less dogmatic in their approach towards future sustainability.

CORPORATE INDIA'S THRIVE FOR SELF GOVERNANCE

The world economy is facing a consummated crisis which is evocative of the great depression of the 1930s. The situation is slightly different in the sense that, all countries that constitute a part of the global economy are affected adversely and pursuing the remedy of increasing liquidity, reclaiming banks and other financial institutions through pricey bailouts. As a consequence, Indian economy is also not shield from the global financial crises that quivered USA and trapped European economies because of the liberalization policy in the trade and services sector etc. Presently the issue transpires as to what's next could happen and how the next happening could be assessed? But before exploring the upcoming with some erroneous pedestal, it is essential that the history should be understood to have a grip on the problems of today's' global financial world. The problem faced at the moment could have been foretold by the financial experts, had they focused on the past dealings and their repercussions. That is, US economy ignored the off beam doings in the sub-prime businesses in letting the catastrophe enter into the global economy. Hence all the roots of the problems that have sprouted with bombarding effect have had their past way back since the time of its financial openness. Economists round the globe including IMF and the yield curve (US Feds' key parameter of its forecasting models) had pointed out for the impending and gradual recession and slowdown of inflation in the US economy since 2006 to the extent of 25-30 percent. But then perhaps nobody sensed the extreme polemic claims made about the effects of financial globalization due to lack of chronological research that has had led to the precariousness and distrust in the minds of global investors. Hence, according to Chris Patten's book, "Investigation of the global moment", it's very important to note that the problems of the economies could have been triumph over by understanding their own history and the history of the issues that they are trying to deal with.

With these occurrences, the pace of change today entails that the aligning of governance standards shall strengthen the economic and social goals, thereby discouraging the fraud and mismanagement. The real foundation of any structure of corporate India is disclosure or openness through fairness, transparency and accountability. These principles are universal in their application and can be drawn from *Kautilya's Arthasastra* and *Mulyas* (values) which stresses on the four principles of governance viz., *raksha* (protection), *vridhi* (enhancement), *palana* (maintenance) and *yogakshema* (safeguard). According to it, "it is the duty of the king to protect the wealth of the state and its subjects, to enhance the wealth, to maintain it and safeguard it and the interests of the subjects." The Indian corporate sector is at cross roads as far as legal structure and internal management, control and administration is concerned. It is faced with numerous issues demonstrating the effective implementation of laws and code of business ethics based on values. Given the global challenges, the only choice left with business and economic enterprises is to follow the corporate governance practices-the path for divine living, fair working, prized surviving, fervently succeeding and excelling in the future. As change is the only certain thing, Indian corporates should continuously look out for changes to indoctrinate ethical standards and constantly innovate to stay ahead of others in terms of efficiency, performance and competitiveness. Successful leaders or corporates do not do different things but they do things differently to confirm to the acid test for core values of sincerity, honesty, integrity, trust, responsibility, citizenship and caring thereupon reviving the confidence of investors. The fundamentals have been dramatically transforming corporate governance and stakeholders as an integrated relation and hence all governed companies should accept the changes in and around them in a way that they do not loose their vision when they save the society at large. It is no longer enough to be concerned with compliance and regulation aspects of governance as hitherto practiced by corporate managers taking them to be absolute, but they must also know when to deviate from them and where the exception is, i.e. to differentiate between *dharma* and *adharma*. The inescapability of the impact of values have been realized by corporates who find themselves more than ever in the public eye reflecting people's values and aspirations and hence, as world markets grow increasingly interdependent, these have become the rules of the business game to prove themselves as both good corporate citizens and leading financial performers. Thus time has come for managers to look within themselves for appealing to the metaphysical power of Lord Krishna (as He rescued Draupadi in public: the greatest Indian epic, Mahabharata) to quest for something beyond the realms of regulation and regulators that must change their thinking, their values thereby changing the system as a result. It is obvious that unless man himself improves, law can never be the panacea in refraining the various incidences of great corporate collapses and fallout of scams. The only countervailing tendencies to be built in the system are through ethics and values in the corporate arena and eschew creating a seed of guilt by not escaping value for non-injury. These when imbibed in corporate governance of the entities change themselves into trusted utilities creating superior value for all stakeholders by setting new benchmarks in their corporate performance.

ENDURING FOR VALUE SYSTEM

Prophets considered that by imparting the knowledge, there is larger universal connectivity that binds the workforce and society. Once people understand that they are all part of one, they will grow into a large human reservoir of compassion, kindness, equality and shared resources. Till the time there is no universal brotherhood in the systems' veins, it will not be possible to connect. Universal brotherhood is an idea that has proven to douse the fires of animosity, foster sharing and supporting towards sustainable inclusive social development. By feeling for the 'have nots' and creating environments for the bottom of pyramid, a highly realized 'self' of an organization is constantly listening to its inner voice and its heart beats for the humanity in all stakeholders. It's the self regulation driven by self control on desires and ambitions of individuals that could ensure universal trust and confidence. Virtuous consciousness is the supreme truth that is all pervasive in human beings and therefore all organization structures. This 'consciousness' is God's way of governance without physical presence. All of us have the option to follow or not. The 'enlightened' souls listen to their inner voice and do not need moral or ethical policing wherever they are in the world. This is the ultimate and most enduring process to prevent greed, obsession, and frauds of any nature. Another important aspect has been that of a multi-faceted structure of the corporate India with very pious intention to create the required conditions of coexistence and to bring about interaction of experts in various fields of knowledge, so that a rational and better way of life amongst the followers of diverse faiths and protagonists of different professions, vocations, ethnic and linguistic orientations may be ensured learning to live together in peace and harmony.

In this stance the concept of corporate social responsibility has been moving ahead to realize the grand vision of the illustrious contributions of the private and public sector units that have been playing the leading role in industrial development of India after the independence. It is designed to put across the sustainable value to society at large as well as to shareholders. It means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment. According to the stockholders model of the economist, Milton Friedman[1], "the responsibility of a corporation is to conduct the business in accordance with (owner's or shareholder's) desires, which generally will be to make as much money as possible while conforming to the basic rules of society both embedded in law and those in ethical customs". Through corporate social responsibility (CSR), the company achieves a balance or integration of economic, environmental and social imperatives while at the same time addressing shareholder and stakeholder expectations. Hence, it has found recognition among enterprises, policy makers and other stakeholders, as an important element of new and emerging forms of governance, which can help them to respond to the following fundamental changes:

(i) Particularly in developing countries, due to Globalization, new opportunities have been created along with their increased organizational complexities. This has led to the increased extension of business activities abroad with new responsibilities on a global scale.

(ii) In the business competitive environment, there is enhanced requirement of information by the consumers and the other stakeholders regarding the sustainability impact of the social and environmental conditions in which products and services are generated.

[1]Milton Friedman, "The Social Responsibility of Business is to Increase its Profits", Times Magazine, New York, Sept 1970.

(iii) The financial stakeholders demand for the disclosure of information beyond traditional financial reporting for identifying the success and risk factors associated with company's conduct in its decision and activities towards the public.

(iv) As the companies globally are becoming conscious about their societal role due to increased importance of knowledge and innovation for competitiveness, they also have a higher interest in retaining highly skilled and competent personnel.

(v) The old paradigm of strategy, structures and system for reviving business is being replaced by purpose, process and people. Since in a highly competitive global market, the morale of the people in an organization is the most important spirited element. This intellectual capital which would see through the organizations in future and it is the prime reason for organizations to follow social responsibility.

(vi) Corporation engaged in genuine community activities exhibit a positive brand image. Brand equity is one of the inputs on the basis of which competition will take place in the global market, especially when productivity and quality of service become increasingly similar among the competing companies.

Thus, the growing awareness of corporate governance and of environmental and social issues is bringing about changes in consumer behavior, investment and policy or regulatory adjustments. There is a continued pressure on the community to demonstrate that economic growth and sustainability are compatible[2]. On the research study made on major UK businesses by Peter L. Walker[3], it was found that corporate governance and corporate social responsibility are interrelated topics and fraught with both contradictions and conflicting approaches even among the leading businesses and investors in the UK. He concluded that, when seventy percent of businesses see corporate social responsibility as 'corporate governance in action' then the logic of accountability for corporate social responsibility resting at an operating level could be regarded as sound sense and good management practice.

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[2]Saswati Ghosh, "Corporate Social Responsibility: The Third Pillar of Sustainable Development", Concepts of Corporate Governance, Part-B, Deep & Deep Publications, p-201-214, 2003.

[3]Peter L.Walker, "Corporate Governance and Corporate Social Respnsibility Patterns of Ownership and Accountability in Leading UK Companies", Corporate Governance-International Journal for Enhancing Board Performance,Vol 3.No:2,p-32-34,2003.

CONCLUSION

The corporate India is required to make significant progress in hoisting their environmental impacts, primarily in their management standards, social development and improvement in information efficiency leading to the generation of benefits to the scholars, educator and the community at large. By such sustainable growth within a set of standards, the system of corporate governance ingrained in the human resource development activities could improve the organization's image, efficiency, effectiveness and social responsibility. There have been momentous facets as regard to identifying the value of corporate social responsibility actions as necessitated in the industrial structure that has also contributed enormously for healthy development of cultural, political, socio-economic and all other important arenas of national life in India.

In present conditions, when many divisive and destabilizing forces have come up to the forefront at national level in India, it has become more and more relevant that the instructions be put forward (through actions) as set by our illustrious founders for their futuristic application in their individual as well as communal life in society. In fact, it has become more important nowadays for the corporate sector to maintain the unity and integrity of India and also to achieve a holistic development of individual and the nation as a whole. Such concerted actions are not possible without ensuring the practice of truthfulness which shall inspire the people to strive for involving themselves collectively for advancement of the society at a wider scale.

Moreover, it has been felt that for the edifice of an effectual operating environment, entrepreneurial trait has also been the main podium which varies for different age bands. In developing quality entrepreneurship, contributions of independent thinkers with fostered motivational attitude are the prerequisites for the growth of the organization. Hence, innovation which is an important ingredient for entrepreneurial supply could be expected from a sturdy valued well governed system. This shall produce the desired results since, the right attitudes for innovation and risk bearing capabilities could be ingrained in such a self-governed system reconnecting the right kind of energy from the given inputs in technology and management along with the induction of the intrinsic factors for budding skills of the legal, political, financial and other functional settings consequential upon the exact entrepreneurial spirit that could be accomplished in the wealth creation of the organization. The people of the organisation can be easily trained with entrepreneurial culture for putting the broader approach at varsity level. Since the structure of an organization encompasses the financial, marketing, human resource management areas, diverse nature of responsibilities could be assigned according to the employees' competence level and innovations at work could be transpired in those areas where the organization could be substantially improved by the juvenile technical, entrepreneurial and managerial knowledge thus socializing the system and building the imaginations into reality. Thereby, they need to manage the climate and environmental risks by first cleaning the inner self. The inner self is part of God and therefore by knowing self and God, they can easily balance any number of opposite forces and foster love and mutual cooperation to create a morally correct cordial atmosphere with an ideal human society free from the external and internal pollution. India's vision on self governance set by our illustrious prophets has let us remind our duties towards learners, nature, society, nations and the whole world transforming ignorant human beings as catalytic converters and planting them in our society by inculcating moral values and abhorring the cultural conflicts. Let us surrender in letter and spirit on behalf of the entire corporate community to the superlative innovators of this country to accomplish the ultimate objective of our ignited desires and practice the virtuous path for the sustenance of a prized corporate ethnicity.

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chapter

2

Corporate Governance and Sustainable Development in India- Need & Challenges

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ABSTRACT

In post LPG era bribery, corruption, scandals, corporate frauds like creative accounting are on rise. In the present day business world, the business enterprises are directly or indirectly involved in all these unethical and socially unacceptable practices. Today business means everything and this business has strength to influence governments to make favourable rules. Today's analysts and investors pay more attention to corporate governance, in addition to company fundamentals. SEBI Committee on Corporate Governance – defines corporate governance as acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making distinction between personal and corporate funds in the management of a company. Corporate governance is a mechanism or system of directing and controlling the corporate organizations. It is the overall control of activities of corporate organizations. Good corporate governance is nothing but the formulation of long-term plans and effective management structure to achieve the objectives of the corporate body. The structures of effective governance include the Board of Directors, the CEO's, Shareholders, Creditors and others. This structure spells out the rules and procedures for making decisions on corporate affairs. Today, it is considered

that corporate governance and economic development are interdependent through the process of economic reform.

Key Words: Corporate Governance, Economic Development, Sustainable Development, Economic Governance and Accountability.

INTRODUCTION

In the post LPG era many scams, frauds and corrupt practices have taken place in India & world over. Misuse and misappropriation of public money in the stock market, banks, financial institutions, companies and government offices are happening everyday in India and worldwide & are the result of bad governance. Today analysts and investors pay more attention to corporate governance, in addition to company fundamentals, than ever before, and studies showed that companies with *poor governance often perform less, trade lower, contribute less to economy and lead to unethical corporate practices, bribes & corruption in the countries.* Ineffective corporate governance leads to unsustainable consumption of natural resources. In order to avoid these scams and financial irregularities, many companies have started corporate governance. Corporate governance is a mechanism or system of directing and controlling the corporate organizations. It is the overall control of activities of corporate organizations.

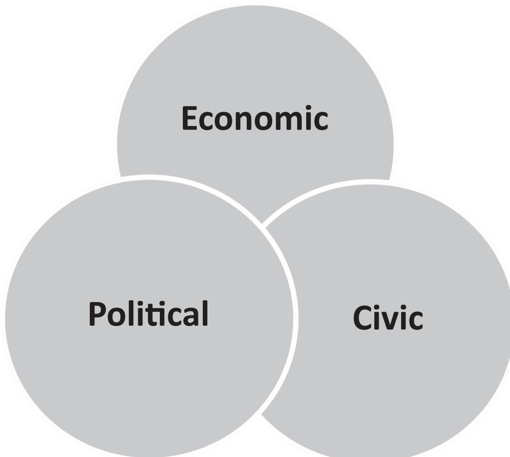
Good corporate governance is nothing but the formulation of long-term plans and effective management structure to achieve the objectives of the corporate body. The structures of effective governance include the Board of Directors, the CEO's, Shareholders, Creditors and others. This structure spells out the rules and procedures for making decisions on corporate affairs. The concept of good governance emerged at the end of the 1980s, at a time of unprecedented political changes. During pre GATT regime, the role of corporate governance in economic development was least felt and corporate governance & economic development were considered unrelated but the trend has changed, now it is considered that corporate governance and economic development are interdependent, intertwined through the process of economic reform. Here corporate governance embraces governance of both public sector undertakings and private corporate entities. The *Transparency, Impartiality, Participation, Accountability and Efficiency* are the pillars of effective corporate governance mechanism. Effective corporate governance mechanism promotes *the development of strong financial system* in the economy. Strong financial system has positive effect on *economic growth and poverty reduction.*

Conceptual Clarity

Governance: *Governance* is the manner in which power is exercised in the management of a country's social and economic resources for development. Governance means the way those with power use that power. - ADB

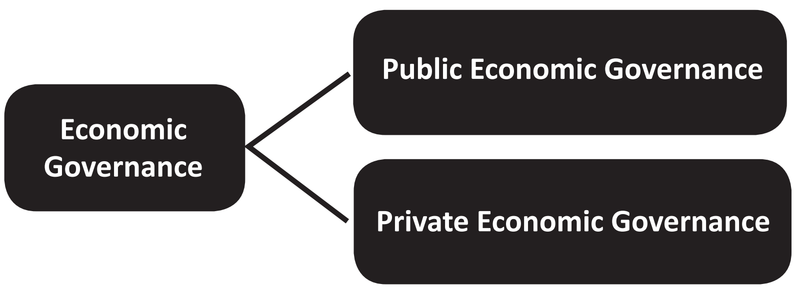
Good governance is among other things participatory, transparent and accountable. It is also effective and equitable. And it promotes the rule of law. – UNDP

Pillars of Good Governance



Source: Federal Department of Economic Affairs [FDEA] State Secretariat for Economic Affairs SECO. Swiss Confederation

Two Aspects of Economic Governance



Corporate Governance - Corporate governance is the *set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled.* Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. Better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better firm performance, and more favorable treatment of all stakeholders.

Economic Development - The economic development is the process of achieving economic well being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life.

Sustainable Economic Development - Sustainable economic development enhances equitable local income and employment growth without endangering local fiscal stability, degrading the natural environment, or contributing to global climate change. It challenges the model of growth based on pure consumption rather than human happiness, takes into account long-term goals as well as short-term needs and is sensitive to local context and history.

Indicators of Good Corporate Governance

- Compliance to the Laws of the Land.
- Transparency in all business practices.
- Responsiveness of management.
- Accountability of board members and senior executives of the corporate enterprise.
- Existence of well defined Strategic Mission and Vision for corporate governing body.
- Equity and Justice in all dealings with all stake holders.
- Respect and Tolerance and so on are the indicators of good corporate governance.

Regulations for Corporate Governance in India

Many financial scams, frauds and corrupt practices in stock market, banks, financial institutions, companies, misuse and misappropriation of public money in government offices are happening in India forced the setting up of corporate governance in India. The Indian regulatory framework relating to corporate governance covers -a) the Indian Companies Act, 1956 now *Companies Act, 2013,* b) the regulations/ directives that are issued by the Securities and Exchange Board of India (SEBI), c) Ministry of Corporate Affairs (MCA) to administer the Companies Act, d) the *Company Law Board* to enforce the provisions of the Companies Act, and e) Regulators such as the Reserve Bank of India (RBI) and the Insurance Regulatory & Development Authority (IRDA). *Clause 49 of listing agreement* is the most significant recent development in Indian legal framework relating to corporate governance.

Need for Corporate Governance

Effective corporate governance is playing a crucial role in sustainable development of a nation. **John D Sullivan**, one of the earliest writers on governance asserted, "In developing economies one must look to supporting institutions as for example, shoring up weak judicial and legal systems in order to enforce contracts and protect property rights in a better way".

Good corporate governance contributes sustainable economic development by enhancing the performance of companies and increasing their access to outside capital Shareholders are protected primarily by non legal mechanisms such as contracts, market forces, and norms of good practice that directors and officers follow. Corporate governance not only protects Shareholders rights but also protects economy as the corporate entities are dominating the economic scene of a nation world over.

The role of CG in Economic development is better understood from the words of **Sir Adrian Cadbury** in *'Global Corporate Governance Forum,'* World Bank (2000): "Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align, as nearly as is possible, the interests of individuals, corporations and society".

Corporate Governance is Needed for the Following

- **Promotes development of strong financial system in the economy** - Corporate governance and economic development are interdependent, intertwined through the process of economic reform. Effective corporate governance mechanism promotes the development of strong financial system in the economy. Strong financial system has positive effect on economic growth and poverty reduction
- **Good corporate governance contributes sustainable economic development** - Good corporate governance enhances the performance of companies and helps the corporate to have access to outside capital.
- **Stress on Corporate Social Responsibility** - social responsibility is one of the important elements in governance mechanism. The corporate governance mechanism insists that the Board of Directors have to protect the interest of all stakeholders- the shareholders, customers, employees, suppliers, local communities, the government and society at large.
- **Builds trust and confidence** - Good Corporate governance

mechanism reduces distrust among various stakeholders leading to reduction of legal costs, improved social & labour relations.

- **Reduces cost of capital & improves the value of corporate** – Effective Corporate governance mechanism reduces cost of capital resulting in improvement of Return on Investment (ROI) and enhances the market value of corporate.
- **Reducing Scams** - Good Corporate governance through *Transparency, Impartiality, Accountability* principles avoids *scams, frauds* and *corrupt practices in stock market, banks, financial institutions & companies, misuse and misappropriation of public money in government offices.*
- **Good Corporate Governance reduces market vulnerability to financial crises.**
- **Development of capital market.**
- **Globalization**- in the post LPG international business environment almost all big companies are doing business in the global market. To be a part of global market they should have effective corporate governance mechanism & follow foreign rules and regulations to *attract foreign investor and foreign customers.*

Effective Corporate Governance Challenges: There are some practices prevalent in the market and in our society which are posing challenges to effective corporate governance in the country. The major challenges are -

- Domination of family members in the board and just name sake inclusion of independent directors.
- Lack of professionalism in top management.
- Erosion of ethical & moral values in board members, CEO's & managers.
- Increasing Corruption, bribes & financial scams.
- Lack of respect for shareholders and low financial disclosure.
- Inter-Agency disputes in name of reform efforts.
- Weak compliance to laws and weak enforcement.
- Indian investors are also reluctant to access the courts due to investor's financial illiteracy & delays in adjudication.

Suggestions

Due to social, economic and political obstacles in the way of effective corporate governance, there is a need to take some measures.

1. Efficient monitoring system can improve transparency in business management.
2. Adoption of a transparent process of appointment at board and management levels.
3. Proper checks and balance system over managerial rights.
4. Accurate information regarding developments, threats and risks related to financial and economic matters in annual reports and on the company websites.
5. Proper and transparent auditing system to check financial irregularities and frauds.
6. Codes of conduct are ensured to be understood and adhered to by all members of organization.
7. Ethical behavior of organization or of any member at board or management level should be rewarded.
8. There should be an independent and transparent process of evaluation of performance of board members.

CONCLUSION

Corporate governance has been proving a very efficient and effective system for our economy and to save the interest of shareholders but some more efficient monitoring and transparent internal audit system, efficient board and management can lead it to effective corporate governance. There is an ongoing need for constant review and course corrections that would keep the country in the pink of health in terms of its corporate excellence by a judicious mix of legislation, regulation and suasion. This task needs to be constantly addressed with growing maturity and competitive compulsions. It should be possible to gradually reduce legislative interventions and increase regulatory compliance with and self-induced adherence to the best practices in this field. Till then, however, legislation and regulations to ensure at least certain minimum standards is inevitable. To facilitate such a graduation into better governance practices, globalization has opened up an array of opportunities to Corporate India to emerge successful in its new tryst with destiny.

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chapter 3

Challenges & Issues for Corporate Governance: Indian Context

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ABSTRACT

Good governance is perhaps the single most important factor in eradicating poverty and promoting development. Therefore, governance is an exercise of power for steering social systems, as well as a process by which organizations are directed, controlled, and held to account to their society. It is a set of the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organization. This article outlines the salient features of the Indian corporate governance system. Most of the corporate governance problems noted far from being unique to India, are in fact commonplace in Asia, and are present in many other economies as well. In particular, corporate governance in India does not compare unfavorably with any of the other major emerging economies like Brazil, China and Russia. This paper primarily focuses on the Corporate Governance (CG) practices in emerging economies, which is the driving force for corporate performance and overall economic prosperity.

Keywords: CSR, Good Governance, Skill Intensive, Financial Crisis, FDI, Global Village.

INTRODUCTION

Corporate governance refers to the manner in which corporation is directed, and laws and customs affecting that direction. It includes the laws governing the formation of firms; the bylaws established by the firm itself, and the structure of the firm. The corporate governance structure specifies the relations, and the distribution of rights and responsibilities, among primarily three groups of participants: the board of directors, managers, and shareholders. This system spells out the rules and procedures for making decisions on corporate affairs; it also provides the structure through which the company objectives are set, as well as the means of attaining and monitoring the performance of those objectives.

The fundamental concern of corporate governance is directors and managers act in the interests of the firm and its shareholders, and to ensure the means by which managers are held accountable to capital providers for the use of assets. Issues of fiduciary duty and accountability are often discussed within the framework of corporate governance. Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect.

The quality of corporate governance has been shown to have wide-ranging implications, e.g., on the performance of stock markets and on exchange rates. This study investigates whether the quality of corporate governance in a country impacts investment decisions made at the micro level of the firm. Despite the corporate governance shortcomings, the Indian economy and its financial markets have started attaining impressive growth rates in recent years, and display an exceptionally high level of optimism. The reason is that India is now clearly and strongly committed to sustaining and rapidly furthering the major economic reforms and the liberalization started in the early nineties.

Corporate governance depends upon two factors. The first is the commitment of the management for the principle of integrity and transparency in business operations. The second is the legal and the administrative framework created by the government. If public governance is weak, we cannot have good corporate governance. The dramatic Enron case has highlighted how companies, which were the darlings of the stock market and held up as models for vigorous and innovative growth, can, ultimately collapse like a house of cards as they were based on fraud and dishonesty. The association of the accounting firm also raised a doubt about the credibility of even well regarded global players.

The emergence of corporate governance in any country is not an overnight occurrence and through which governance issues are brought to light, redesigned, improved just suit to their requirements. A good code of governance is pre-requisite for any economy irrespective of its stage of development and it is much more so for fast developing economies like India. The code of corporate governance in India is a well proven set of governance mechanism on par with the worlds' best governance codes.

It is evident from the Global Investor Opinion Survey- key findings of Mc Kinsey & Company, July 2002 that companies with good corporate governance mechanisms have performed better than companies with poor governance records. Therefore it is advisable to restructure and redesign the corporate governance codes to meet the global changes to tone up the performance and gain investor confidence of the company. Certainly it will go a long way to have better corporate governance practices and be acclaimed as among the best in the world as the Infosys Technologies Ltd., has achieved. This Indian IT company therefore warrants particular attention.

CORPORATE GOVERNANCE - COMPETITION, EMERGING MARKETS

The quality of corporate governance has been shown to have wide-ranging implications, e.g., on the performance of stock markets and on exchange rates. This study investigates whether the quality of corporate governance in a country impacts investment decisions made at the micro level of the firm. The focuses on Asian emerging markets and they have widely varying standards of corporate governance.

- Corporate governance and a poor competitive environment in the affected Countries.
- Ownership is by far the exception in developing countries.
- Fast long-term growth with different governance systems, in developed countries.
- Corporate financing patterns in emerging markets in the 1990s were broadly similar to those observed in the 1980s. Unlike their counterparts in advanced Countries, large developing countries firms continued to rely overwhelmingly on external sources to finance their growth of total assets.
- Conglomerates are inefficient, financially precarious and necessarily create moral hazard. It also indicates that contrary to widely held beliefs, product market competition in emerging countries is no less intense than in advanced economies.

MAIN REASONS FOR THE UPSURGE OF CORPORATE GOVERNANCE

There is awareness on the part of lending institutions which are now being subjected to rigorous accounting norms, particularly with regard to income rendition and provisions against non-performance loans so they are giving much more emphasis to good and efficient corporate governance. There is the integration of India into the world economy which depends that Indian industry should pay the game by a standard set of international rules rather than continue their anachronistic practices.

The recent interest about Corporate Governance is primarily a product of four factors.

- Assertion of Rights by the shareholders.
- Significant presence of Foreign Institutional Investors.
- Awareness on the part of lending institution.
- Integration of India into the World Economy.
- Strong Media presence.
- Participants involvement in Corporate Governance.
- Shareholders have not been able to fulfill the historic role effectively for the reasons that they are widely spread and many of them find it difficult to travel to the meeting place. But in the context of complex nature of modern business, the scope of areas requiring shareholder's approval has enlarged.
- The significant presence of foreign institutional investors who demand greater professionalism in the management of Indian corporate has also led to the keen interest in the corporate Governance.

THE ROLE OF AUDITING TO PROMOTE GOOD GOVERNANCE

The United Nations has identified the basic characteristics for good governance in the public sector as portrayed. Among these core elements of good governance in the public sector, the IAF can emphatically focuses on the functioning and performance of the public sector. The four related characteristics of good governance are transparency, public accountability, effectiveness/efficiency and responsiveness. As a result, the IAF has always been viewed as an integral part of the government financial management and increasingly as an instrument for improving the performance of the government sector.

Government auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders. The government auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether government entities are doing what they are supposed to do and serves to detect and deter public corruption.

RELEVANCE OF CORPORATE GOVERNANCE TO INDIAN CONTEXT

There is a need to bring better corporate Government in India in the context of liberalization, Privatization and globalization (LPG) of Indian economy. The following factors underline the relevance of corporate Government to Indian context.

- Indian Boards are not in tune with times.
- Holders of limited stake determine the destiny of major shareholders.
- Family feuds result on stalemate and confusion.
- Changing business environment.
- Shift in Government attitude.
- Vision development
- Brand building
- Competitive edge
- Professional managers and independent auditors did not help much

Strategic management is the theme for survival for corporate in the present competitive environment. Strategic Management is depending on – clear understanding regarding company's mission, objectives and strategic, proper environment analysis and corporate analysis. Important issues in Corporate Governance are:

- Sound Management
- Fiduciary relationship
- Responsibility
- Accountability
- Return on Integrity

Confederation of Indian Industry issued many recommendations for Board of directors for efficient and effective performance in Corporate Governance for the Indian Industrial Development.

GLOBAL CHARACTERISTICS OF CORPORATE GOVERNANCE

Fundamental paradigm shift by all participants in the construction industry to enterprise development and management, a shift based solidly on probity and respect. The paper argues that such a commitment by industry participants could lead to an enabling environment for effective delivery and for growth, improved performance and continuous development of the industry. Good corporate governance is after all, about the values supporting excellence as well as the creation of an ethical culture.

Globalization trends are currently enhancing the strength of market forces relative to that of governments, and in both developed and developing nations a growing proportion of economic activity is taking place in firms organized as corporations. Societies around the world are thus placing greater reliance on the private sector as the engine of economic growth, with privatization and liberalization movements constantly adding to the power of these corporations. Research has shown that corruption hinders a county's ability to absorb the beneficial side of globalization, and makes it more vulnerable to its risks such as the increasing likelihood of currency crises. This high cost is translated by FDI flight or reduction.

The growing importance of the private sector has also raised concerns with the direction and control of these corporations. Following the Asian financial crisis, corporate governance came to the forefront of the international financial, and development policy agenda; and crises, such as in Russia, have moreover highlighted this issue. At the core of both the Asian and Russian crises were corporations and governments that failed to create a system of transparent, market based principles of business practices. The collapse of companies like Enron and Andersen last year, have brought furthermore to the fore the significance of good corporate governance. In the Arab region last year's banking debacle in Jordan, the under-performing Egyptian banking sector and the rising number of cases featuring weak corporate performance in the Gulf as well as the entrenched corruption have highlighted the need to start a debate on the subject of corporate governance.

CHALLENGES AND ISSUES IN CORPORATE GOVERNANCE IN INDIA

The word 'corporate governance' has become a buzzword these days because of two factors. The first is that after the collapse of the Soviet Union and the end of the cold war in 1990, it has become the conventional wisdom all over the world that market dynamics must prevail in economic matters. The concept of government controlling the commanding heights of the economy has been given up. This, in turn, has made the market the most decisive factor in settling economic issues.

Implementation of corporate governance has depended upon laying down explicit codes, which enterprises and the organizations are supposed to observe. The Cadbury's code in United Kingdom was the starting point, which led to a number of other codes. In India itself we have the Kumaramangalam Birla code as a result of the committee headed by him at the behest of the SEBI. Earlier we had the CII coming up with the code for corporate governance recommended by the committee headed by Shri Rahul Bajaj. The codes, however, can only be a guideline. Ultimately effective corporate governance depends upon the commitment of the people in the organization. The very first issue of corporate governance in India is, do the India managements really believe in corporate governance?

Corporate governance depends upon two factors. The first is the commitment of the management for the principle of integrity and transparency in business operations. The second is the legal and the administrative framework created by the government. If public governance is weak, we cannot have good corporate governance. The dramatic Enron case has highlighted how companies, which were the darlings of the stock market and held up as models for vigorous and innovative growth, can, ultimately collapse like a house of cards as they were based on fraud and dishonesty. The association of the accounting firm also raised a doubt about the credibility of even well regarded global players.

In the Indian context, the need for corporate governance has been highlighted because of the scams we have been having almost as an annual feature ever since we had liberalization from 1991. We had the Harshad Mehta Scam, Ketan Parikh Scam, UTI Scam, Vanishing Company Scam, Bhansali Scam and so on. Right now the Enron issue is examined by a number of committees at different levels in the United States. At the end of all these examinations, they are likely to come with a better model. In the Indian corporate scene we must be able to induct global standards so that at least while the scope for scams may still exist, we can reduce the scope to the minimum.

The legal and administrative environment in India provides excellent scope for corrupt practices in business. As a result unless a management is committed to be honest and observe the principles of propriety, the atmosphere is too tempting to observe good corporate governance in practice. We should approach the corporate governance issue in India not merely from the point of view of the Companies' Act or the guidelines which can be issued like the Kumaramangalam code or the Bajaj code but look at the entire network of various rules and regulations impinging on business so that there is a integrated holistic system created for ensuring that transparency and good corporate governance prevail.

CONCLUSION

India is viewed as the world's most significant business process and IT services provider and a consumer market with long-term potential. Foreign direct investments in India therefore tend to be more skill intensive than capital intensive, the major motivation for Indian firms' corporate governance improvement being the need to attract talent from a worldwide employment pool, a need that is further enhanced by global product market competition. Access to global capital markets is a consequence, rather than the cause of the Indian companies' motivation to adopt international corporate governance standards. Corporate India needs to make giant steps in order to take the full advantage of globalization and information technology. The leadership of the centre comprising of board of directors and top management would have to be truly processional and responsible. There should be code of corporate governance. The centre should focus more ion their core activities like giving direction, vision, empowering others. The movement for better corporate governance is not just for the lending institutions or for investor protection, but, it is a movement for survival and growth of Corporate in the era of globalization and liberalization.

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chapter 4

Importance of Corporate Governance in the Globalised World

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ABSTRACT

With the new era of economic process, there are heap changes within the industrial relations and governance. Corporate governance is that the system by which corporations are directed and controlled. Boards of administrators are answerable for the governance of their corporations. The shareholders' role in governance is to appoint the administrators and therefore the auditors associated to satisfy themselves that an applicable governance structure is in situ. Today, social responsibility is given plenty of importance. The Board of administrators ought to shield the rights of the purchasers, employees, shareholders, suppliers, native communities, etc. this is often attainable given that they use corporate governance.

Keywords: Corporate Governance, Globalisation, Impact, India.

INTRODUCTION

According to ***Investopedia,*** 'Corporate Governance' means the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many

[1]Definition of 'Corporate Governance', http://www.investopedia.com/terms/c/corporategovernance.asp (last accessed on: October 25, 2015)

stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

The Business Dictionary defines 'Corporate Governance' as the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community). The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances, also called corporation governance. See also Cadbury rules and governance.

Difference Between Corporate Governance and Business Ethics

Business Ethics refers to carrying business as per self-acknowledged ethical standards. it's really a structure of ethical principles and code of conduct applicable to a business. Business ethics area unit applicable not solely to the style the business relates to a client however conjointly to the society at giant. It's the value of right and wrong things from business purpose of read. Business ethics not solely name the code of conduct at geographic point however conjointly with the shoppers and associates. Corporations that gift factual information respect everybody and completely adhere to the principles and laws area unit illustrious for top moral standards. Business ethics implies conducting business during a manner helpful to the social group yet as business interests.

Every strategic decision has a moral consequence. The main aim of business ethics is to provide people with the means for dealing with the moral complications. Ethical decisions in a business have implications such

[2]Corporate Governance, http://www.businessdictionary.com/definition/corporate-governance.html (last accessed on: October 27, 2015)

[3]Business Ethics - A Successful way of conducting business, http://www.managementstudyguide.com/business-ethics.htm (last accessed on: October 29, 2015)

[4]The Effects of Ownership Structure on Corporate Governance and Performance, http://www.nfcgindia.org/ubs_summery.htm (last accessed on: October 27, 2015)

as satisfied work force, high sales, low regulation cost, more customers and high goodwill. Some of ethical issues for business are relation of employees and employers, interaction between organization and customers, interaction between organization and shareholders, work environment, environmental issues, bribes, employees' rights protection, product safety etc.

Corporate governance specifies the relationship among various primary participants (shareholders, directors, and managers) in determining the directions and performance of corporations. In a broader sense, it delineates the rights and responsibilities of each primary stakeholder and the design of institutions and mechanisms that induce or control board directors and management to best serve the economic interests of shareholders (and other stakeholders) of a company. Many of these other stakeholders also play a role in monitoring the behaviour of the board/management. [4]

Importance of Corporate Governance

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. In the UK for listed companies corporate governance it is part of the legal system as the UK Corporate Governance Code applies to accounting periods beginning on or after 29 June 2010 and, as a result of the new Listing Regime introduced in April 2010, applies to all companies with a Premium Listing of equity shares regardless of whether they are incorporated in the UK or elsewhere. But good governance can have wider impacts to the non-listed sector because it is fundamentally about improving transparency and accountability within existing systems. One of the interesting developments in the last few years has been the way in which the 'corporate' governance label has been used to describe governance and accountability issues beyond the corporate sector. This can be confusing and misleading as UK Corporate Governance has been built and developed to deal with the governance of listed company entities and not designed to cover all organisational types that may have different accountability structures.

Impact of Corporate Governance on Business

Changing Ownership Structure: In recent years, the ownership structure of companies has changed a lot. Public financial institutions, mutual funds, etc. are the single largest shareholder in most of the large companies. So, they

[5]What is corporate governance?, http://www.icaew.com/en/technical/corporate-governance/overview/does-corporate-governance-matter (last accessed on: October 29, 2015)

have effective control on the management of the companies. They force the management to use corporate governance. That is, they put pressure on the management to become more efficient, transparent, accountable, etc. They also ask the management to make consumer-friendly policies, to protect all social groups and to protect the environment. So, the changing ownership structure has resulted in corporate governance.

Growing Number of Scams: In recent years, many scams, frauds and corrupt practices have taken place. Misuse and misappropriation of public money are happening every day in India and worldwide. It is happening in the stock market, banks, financial institutions, companies and government offices. In order to avoid these scams and financial irregularities, many companies have started corporate governance.

Indifference on the part of Shareholders: In general, shareholders are inactive in the management of their companies. They only attend the Annual general meeting. Postal ballot is still absent in India. Proxies are not allowed to speak in the meetings. Shareholders associations are not strong. Therefore, directors misuse their power for their own benefits. So, there is a need for corporate governance to protect all the stakeholders of the company.

Globalisation: Today most big companies are selling their goods in the global market. So, they have to attract foreign investor and foreign customers. They also have to follow foreign rules and regulations. All this requires corporate governance. Without Corporate governance, it is impossible to enter, survive and succeed the global market.

Takeovers and Mergers: Today, there are many takeovers and mergers in the business world. Corporate governance is required to protect the interest of all the parties during takeovers and mergers.

SEBI: SEBI has made corporate governance compulsory for certain companies. This is done to protect the interest of the investors and other stakeholders.

Principles of Corporate Governance

Shareholder recognition is the key to maintaining a company's stock price. More often than not, however, small shareholders with little impact on the stock

[6]Gaurav Akrani, Importance of Corporate Governance - Need Significance, http://kalyan-city.blogspot.in/2011/10/importance-of-corporate-governance-need.html (last accessed on: October 25, 2015)

[7]Leo Sun, Why is Corporate Governance Important?, http://www.businessdictionary.com/article/618/why-is-corporate-governance-important/ (last accessed on: October 25, 2015)

price are brushed aside to make way for the interests of majority shareholders and the executive board. Good corporate governance seeks to make sure that all shareholders get a voice at general meetings and are allowed to participate. Stakeholder interests should also be recognized by corporate governance. In particular, taking the time to address non-shareholder stakeholders can help your company establish a positive relationship with the community and the press. Board responsibilities must be clearly outlined to majority shareholders. All board members must be on the same page and share a similar vision for the future of the company. Ethical behaviour violations in favour of higher profits can cause massive civil and legal problems down the road. Underpaying and abusing outsourced employees or skirting around lax environmental regulations can come back and bite the company hard if ignored. A code of conduct regarding ethical decisions should be established for all members of the board. Business transparency is the key to promoting shareholder trust. Financial records, earnings reports and forward guidance should all be clearly stated without exaggeration or "creative" accounting. Falsified financial records can cause your company to become a Ponzi scheme, and will be dealt with accordingly.

Advantages of Corporate Governance

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals. Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/

[8]Corporate Governance - Definition, Scope and Benefits, http://www.managementstudyguide.com/corporate-governance.htm (last accessed on: October 25, 2015)

tasks of owners and managers should be clearly defined, rather, harmonizing. Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market- oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization is significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights. Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
7. It helps in brand formation and development.
8. It ensures organization in managed in a manner that fits the best interests of all.

Impact of Globalisation on Corporate Governance

Therefore, Corporate Governance can be defined as: "the system by which corporations and institutions are directed, controlled and held to account.

[9]Perry, Frederick V., Rehman, Scheherazade S., Measuring the impact of globalization on corporate governance in emerging markets, http://www.freepatentsonline.com/article/European-Journal-Management/260791873.html (last accessed on: October 26, 2015)

It is connected with the social, political and legal environment in which the corporation operates; the institutionalized processes, systems, practices and procedures-the formal and informal-rules that govern the corporation; the manner in which these are applied and followed, the relationship and the extent to which these facilitate and provide support for the collective development and utilization of knowledge, technology, people and other resources to enable the corporation meet its objective. "Why do we use the term "globalization" and what is meant by it? There are many definitions of globalization, for example, "globalization, simply put, denotes the expanding scale, growing magnitude, speeding up and deepening impact of transcontinental flows and patterns of social interaction. It refers to a shift of power relations across the world's regions and continents" (Heft and McGrew, 2002). Two famous international relations theorists say that: "Globalism is a state of the world involving networks of interdependence at multi-continental distances. The linkages occur through flows and influences of capital and goods, information and ideas, and people and forces, as well as environmentally and biologically relevant substances (such as acid rains or pathogens). Globalization and deglobalization refer to the increase or decline of globalism."

How does globalization affect corporate governance, and how does it, if at all, affect or cause a trend to a convergence or standardization in the various national systems? We find now, more than ever before a worldwide collective focus on corporate governance - especially in the aftermath of the global financial crisis. There seem to be a variety of reasons for this. Whereas the corporate debacles around the beginning of the millennium gave rise to such laws as the Sarbanes-Oxley Act, and other laws that attempt to control corporate greed while increasing transparency, the crisis of 2008-2009 has again solidified this trend to collective concern about how corporations are run, and not just banks and insurance companies. According to an article appearing in Forbes.com, "The economic crisis of '08 has led to a sea change in how Americans think about business and the boardroom. For the board director, it has led to new and proposed regulations, changes in corporate governance processes, and a fundamental shift in attitude about the obligations that business has to the citizenry (Forbes.com, 2009)". Nearly all of these reasons, or at least the way they are able to make their worldwide impact felt, have to do, in one way or another with the phenomenon of globalization. The most prominent phenomena causing such focus seem to be a wave of privatization that has swept the world; the reform of pension funds and their regulatory environment in a variety of countries, especially the Anglo-Saxon countries, and the growth in personal savings; deregulation and integration of the capital markets in many countries and across borders; the East Asia crisis of 1998, which became a catalyst for focusing attention on corporate governance in emerging market countries; a spate of recent scandals and corporate failures in the U.S., such as the Enron matter and similar cases; and the world-wide recession (Financial Times, 2002). Of course, the failures and scandals were not limited to the U.S. Europe, Asia (The Economist, 2004) and countries of other regions have donated companies' and executives' names to the list (BBC News, 2004). Finance houses around the globe have either failed or required sovereign bail-outs.[9]

CONCLUSION

The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. Corporate governance is therefore about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day to day operational management of the company by full-time executives. The proper corporate governance means good jobs and growth of the country.

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chapter 5

Corporate Governance: Success Mantra for Businesses in 21st Century

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ABSTRACT

Corporate Governance is about putting in place the structure, processes and mechanisms by which business and affairs of the company or firm are directed and managed, in order to enhance long term shareholder value through accountability of managers and enhancing firm performance. In other words, through such structure, processes and mechanisms, the well-known agency problem - the separation of ownership (by shareholders) and control (by managers) which gives rise to conflict of interests within a firm may be addressed such that the interest of the managers are more aligned with that of shareholders. In recent years, the corporate scandals, some of which are still unfolding, involving high incidence of improper activities of managers expropriating the resources of a firm at the ultimate expense of shareholders prompt the intense re- examination and scrutiny of some of the existing corporate governance practices and also considerable interest in empirical research on the effectiveness of various corporate governance institutions and mechanisms. This paper makes an attempt to review extensively the literature and research findings on corporate governance and corporate performance.

Key words: Corporate Governance, Corporate Performance, Good Governance.

CORPORATE GOVERNANCE: AN INTRODUCTION

Corporate governance is the part of an economy's financial system which has today become the most important mechanism for resource allocation. It is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The term *corporate governance* is a relatively new one both in the public and academic debates, although the issues it addresses have been around for much longer, at least since *Berle and Means* (1932) and the even earlier Smith (1776).

In a narrow sense, corporate governance involves a set of relationship amongst the company's management, its board of directors, shareholders and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards employees, creditors, suppliers and local communities where the corporation operates.

In a broader sense, however, good corporate governance- the extents to which companies are run in an open and honest manner- is important for overall market confidence, the efficiency of international capital allocation, the renewal of countries' industrial bases, and ultimately the nations' overall wealth and welfare. (*NFCG, 2004*)

Corporate governance and economic development are intrinsically linked. Effective corporate governance systems promote the development of strong financial systems – irrespective of whether they are largely bank-based or market-based – which, in turn, have an unmistakably positive effect on economic growth and poverty reduction (*Claessens*, 2003). There are several channels through which the causality works. Effective corporate governance enhances access to external financing by firms, leading to greater investment, as well as higher growth and employment. Poor corporate governance also hinders the creation and development of new firms. Good corporate governance also lowers of the cost of capital by reducing risk and creates higher firm valuation once again boosting real investments (*La Porta et al.*, 2000).

Effective corporate governance mechanisms ensure better resource allocation and management raising the return to capital. In recent years, the corporate scandals, some of which are still unfolding, involving high incidence of improper activities of managers expropriating the resources of a firm at the ultimate expense of shareholders prompt the intense re- examination and scrutiny of some of the existing corporate governance practices and also considerable interest in empirical research on the effectiveness of various corporate governance institutions and mechanisms. Companies around the world are realizing that better corporate governance adds considerable value to their operational performance (NFCG, 2004).

- It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience, and a host of new ideas.
- It rationalizes the management and monitoring of risk that a firm faces globally.
- It limits the liability of top management and directors, by carefully articulating the decision making process.
- It assures the integrity of financial reports.
- It has long term reputational effects among key stakeholders, both internally and externally.

Definitions of Corporate Governance

Authors (Years)	Definition	Contribution
1. Sir Adrian Cadbury. (Cadbury report (UK) 1992)	"Corporate governance is the system by which companies are directed and controlled." Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals.	Holding the balance between economic and social goals.
2. Sir Adrian Cadbury (1993)	"…to do with Power and Accountability: who exercises power, on behalf of whom, how the exercise of power is controlled."	Power and Accountability
3. Monks and Minow, Corporate Governance (1995)	"Corporate governance is the relationship among various participants [Chief Executive officer, Management, Shareholders, and Employees] in determining the direction and performance of corporations".	Relationship among various participants

4. Shleifer and Vishny (1997)	"Corporate governance deals with the way in which suppliers of finance to corporate assure themselves of getting a return on their investment"	Return on their Investment
5. John and Senbet (1998, p. 372)	"Corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected "	Control over Corporation
6. J. Wolfensohn, President of the World Bank, (1999)	"Corporate governance is about promoting corporate fairness, transparency and accountability"	Promote corporate fairness, transparency & accountability
7. Preamble to the OECD Principles of Corporate Governance (2004)	"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."	A set of Relationship

Corporate Governance: A Conceptual Framework

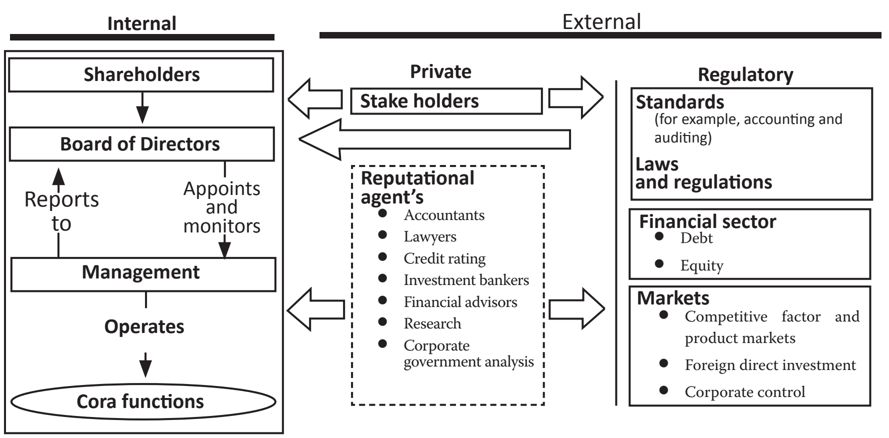
In addition to the behavior of individual companies, the application of good governance depends on an effective external system of markets and institutions. These external forces promote efficiency, set standards, punish violations, and encourage the flow of information. In developing markets, it is particularly important to ensure that the legal and regulatory environment guarantees the rule of law, property rights, access to capital, sound exit mechanisms (bankruptcy laws), access to information, and professional government and regulatory agencies. Advocates for good corporate governance must highlight the need for these types of institutional reforms, which are closely tied to corporate performance and state-level growth.

A Framework for Corporate Governance Includes

Internal controls: which minimize risk by promoting transparency and defining the relationship between managers, shareholders, boards of directors, and stakeholders; and

External controls: It comprises the legal and regulatory framework supporting the principles of corporate governance.

Figure 1: Modern corporations are disciplined by internal and external factors



1. Reputational agents refer to private sector agents, self-regulating bodies, and civic society that reduce information asymmetry, improve the monitoring of firms, and shed light on opportunistic behavior

Source: Corporate Governance Framework, Nadereh Chamlou, Magdi Iskande, World Bank, 2004

'GOOD' CORPORATE GOVERNANCE

Good corporate governance is characterized by a firm commitment and adoption of ethical practices by an organization across its entire value chain and in all of its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including the minority shareholders), in both good and bad times. To achieve this, certain checks and practices need to be whole-heartedly embraced.

Governance is "good" when it allocates and manages resources to respond to collective problems, in other words, when a State efficiently provides public goods of necessary quality to its citizens. Hence states should be assessed on both the quality and the quantity of public goods provided to citizens (Rotberg, 2004-05). The policies that supply public goods are guided by principles such as human rights, democratization and democracy, transparency, participation and decentralized power sharing, sound public administration, accountability, rule of law, effectiveness, equity, and strategic vision (Cheema, 2005). The Human Development Report issued in 2002 insists on "good" governance as a democratic exigency, in order to "[rid] societies of corruption, [give] people the rights, the means, and the capacity to participate in the decisions that affect their lives and to hold their governments accountable for what they do" (Nzongola-Ntalaja, 2002).

"Good" governance promotes gender equality, sustains the environment, enables citizens to exercise personal freedoms, and provides tools to reduce poverty, deprivation, fear, and violence (Cheema, 2005). The UN views good governance as participatory, transparent and accountable. It encompasses state institutions and their operations and includes private sector and civil society organizations.

In practice, such principles should translate into "strengthening democratic institutions" (Nzongola-Ntalaja, 2002) by free, fair and frequent elections, a representative legislature, some judiciary and media independence from the State, the guarantee of human rights, transparent and accountable institutions, local governments that possess decentralized authority, a civil society which sets priorities and defends "the needs of the most vulnerable people" (Cheema, 2005).

Good corporate governance can significantly reduce the risk of nation-wide financial crises. There is a strong inverse relationship between the quality of corporate governance and currency depreciation (*Johnson et al, 2000*). Finally, good corporate governance can remove mistrust between different stakeholders, reduce legal costs and improve social and labor relationships and external economies like environmental protection.

Good corporate governance helps an organization achieve several objectives and some of the more important ones include:

- Developing appropriate strategies that result in the achievement of stakeholder objectives
- Attracting, motivating and retaining talent
- Creating a secure and prosperous operating environment and improving operational performance
- Managing and mitigating risk and protecting and enhancing the company's reputation.

Good Corporate Governance: (www.cipe.com /corp_gov)

- Shareholders elect directors who represent them.
- Directors vote on key matters and adopt the majority decision.
- Decisions are made in a transparent manner so that shareholders and others can hold directors accountable.
- The company adopts accounting standards to generate the information necessary for directors.

- Investors and other stakeholders to make decisions; and
- The company's policies and practices adhere to applicable local laws.
- Strengthens management by shaping a sound company strategy that will generate better profit margins;
- Helps prevent systemic banking crises even in countries where most firms are not actively traded on stock exchanges;
- Protects minority shareholders and their investments;
- Minimizes the incidence of corruption;
- Ensures a smooth inter-generational transfer of wealth and divestment of family assets, as well as reducing conflicts of interest.
- Improves access to capital and financial markets and attracts greater investment;
- Establishes a system of internal controls that promotes greater accountability and transparency in dealing with investors and creditors.

Weak or Absent Corporate Governance (www.cipe.com /corp_gov)

- Minimizes opportunities to attract sufficient capital, erodes competitiveness, and limits job creation;
- Affects employee morale and commitment to the company;
- May put a company out of business due to a lack of solid company strategy and leadership from the board of directors;
- Allows insiders (company managers and directors) to ransack companies at the expense of shareholders, creditors, and other stakeholders; and
- May force authorities to enforce compliance, leading to excessive regulation that stifles private sector growth.

An Empirical research has revealed that over 84 percent of global institutional investors will pay a premium for the shares of a well-governed company over one with a comparable financial record yet considered poorly governed. (OECD)

WHY CORPORATE GOVERNANCE BECOME SO PROMINENT TODAY?

Corporate governance has become a major issue in our increasingly global economy. To remain competitive in developing countries, attract capital ensure sustainability, and combat corruption, companies need to put in place good governance institutions. As James Wolfensohn, former president of the World Bank, noted, "The governance of the corporation is now as important to the world economy as the government of countries".

The efficiency of the prevailing governance mechanism has been questioned (Jensen 1993, miller 1997, and Porter 1997) this debate has intensified following reports about spectacular high profile financial scandals & business failures (e.g. Polly Peck, BCCI).

Gregory and Simms (1999) observed that corporate governance practices vary across the countries and industries reflecting differing ownership structure, business and competitive conditions, so, there is a need for the development and enforcement capability of the legal system. Furthermore as noted by Gregory and Simms (1999), the quality of corporate governance is important since it has a direct impact on:

a. The efficiency with which a corporation employs assets.
b. Its ability to attract low-cost capital.
c. Its ability to meet the expectations of society.
d. Its overall performance.

National Foundation of Corporate Governance (2004) in his report focusing on some important aspect of implementation of corporate governance regulation in India because it create the environment to internal as well as external parties to check on the performance, make system transparent and fair. Corporate Governance improves strategic thinking by implementing new governing practices and also long term goodwill to good governance practices in an industry.

The phenomenon that has come to be called corporate governance has been practiced much longer than the term has been in use. Tricker (1997b) considers that Plato's dialogue dealing with Guardians of the Republic and the governance of the Greek City States (Plato 1955) describes activities associated with the contemporary concept of corporate governance. Francis (1997) suggests that the corporate form of business enterprise, with multiple owners of a structured entity, can trace its origins back to Roman times at least. Others (Berle & Means 1932) view the growth of corporate enterprises in the seventeenth and eighteenth centuries as the precedent for modern corporate governance.

In Asia, the prevalence of family ownership, government interference, relationship-based transactions and generally weak legal systems and law enforcement result in agency problems such as large deviations between control and cash flow rights and low degree of minority rights protection. Conventional corporate governance mechanisms such as takeovers and boards of directors are not strong enough to relieve agency problems. The group business and cross-holding structure further complicate agency problems. These agency problems and weak corporate governance, not only lead to poor firm performance and risky financing patterns, but are also conducive to macroeconomic crises (Claessens et al. 2002b), like the 1997 East Asia crisis. Therefore, agency problems and corporate governance in Asia warrant urgent attention.

CORPORATE GOVERNANCE INITIATIVES IN INDIA (NFCG, SEPT 2004)

There have been several major corporate governance initiatives launched in India since the mid-1990s. The first was by the Confederation of Indian Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. The second was by the SEBI, now enshrined as Clause 49 of the listing agreement. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was again by SEBI - the Narayana Murthy Committee, which also submitted its report in 2002. Based on some of the recommendation of this committee, SEBI revised Clause 49 of the listing agreement in August 2003. Subsequently, SEBI withdrew the revised Clause 49 in December 2003, and currently, the original Clause 49 is in force.

THE CII CODE

More than a year before the onset of the Asian crisis, CII set up a committee to examine corporate governance issues, and recommend a voluntary code of best practices. The committee was driven by the conviction that good corporate governance was essential for Indian companies to access domestic as well as global capital at competitive rates. The first draft of the code was prepared by April 1997, and the final document (Desirable Corporate Governance: A Code), was publicly released in April 1998. The code was voluntary, contained detailed provisions, and focused on listed companies.

KUMAR MANGALAM BIRLA COMMITTEE REPORT AND CLAUSE 49

While the CII code was well-received and some progressive companies adopted it, it was felt that under Indian conditions a statutory rather than a voluntary code would be more purposeful, and meaningful. Consequently, the second major corporate governance initiative in the country was undertaken by SEBI. In early 1999, it set up a committee under Kumar Mangalam Birla to promote and raise the standards of good corporate governance. In early 2000, the SEBI board had accepted and ratified key recommendations of this committee, and these were incorporated into Clause 49 of the Listing Agreement of the Stock Exchanges.

The Naresh Chandra Committee Report on Corporate Governance

The Naresh Chandra committee was appointed in August 2002 by the Department of Company Affairs (DCA) under the Ministry of Finance and Company Affairs to examine various corporate governance issues. The Committee submitted its report in December 2002. It made recommendations in two key aspects of corporate governance: financial and non-financial disclosures: and independent auditing and board oversight of management.

Narayana Murthy Committee Report on Corporate Governance

The fourth initiative on corporate governance in India is in the form of the recommendations of the Narayana Murthy committee. The committee was set up by SEBI, under the chairmanship of Mr. N. R. Narayana Murthy, to review Clause 49, and suggest measures to improve corporate governance standards. Some of the major recommendations of the committee primarily related to audit committees, audit reports, independent directors, related party transactions, risk management, directorships and director compensation, codes of conduct and financial disclosures.

Reasons to Strengthen the Corporate Governance

P. K. Gupta (2009) in his paper corporate governance in India: concept, Course of action and compliance discussed following reasons to make efficient corporate governance system:

- To promote or to increase awareness among entrepreneurs adoption of good corporate governance practices, which are the integral element for doing and managing business.
- To ensure the quality of audit that is at the root of effective corporate governance by making the Auditor accountable for the disclosure of financial information
- To make the Board of Directors as well as the CEOs and CFOs accountable for the discharge of their duties with the proper use of their rights within the powers.
- To form an appropriate system in order to check the Directors independence in the board and to monitor the work of Audit firms.

- To pay special attention in the quality and effectiveness of the legal, administrative and regulatory framework.
- Similarly, Bhat & Varun (2007) emphasis on several aspects to the requirement to strengthen the corporate governance:
- To increase the shareholder activism i.e. the exercise and enforcement of rights by minority shareholders with the objective of enhancing shareholder value over the long term.
- To infuse India's Business Culture with a "Spirit of Corporate Governance" in order to maintain sustainable and effective corporate governance.
- To implement more robust Bankruptcy Laws which are a key component to of any corporate governance system.
- To eliminate "Regulatory Arbitrage" i.e. to establish a clear mandate for each regulatory Authority for the enforcement of Clause 49 of the Listing Agreement, thereby improving India's corporate governance enforcement mechanism.

FUTURE PROSPECTS FOR CORPORATE GOVERNANCE

The issues of governance, accountability and transparency in the affairs of the company, as well as about the rights of shareholders and role of Board of Directors have never been as prominent as it is today. (Source: www.business.gov.in/corporate_governance), But, with the integration of Indian economy with global markets, industrialists and corporate in the country are being increasingly asked to adopt better and transparent corporate practices. The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for taking key investment decisions. If companies are to reap the full benefits of the global capital market, capture efficiency gains, benefit by economies of scale and attract long term capital, adoption of corporate governance standards must be credible, consistent, coherent and inspiring (www.business.gov.in/corporategovernance). Hence, in the years to come, corporate governance will become more relevant and a more acceptable practice worldwide. Scams are an integral part of corporate history. Such scams are an opportunity for self-renewal; neither self-denial nor blame game. The frequency and scale of such scams has been far more in the West than in India (Press Release published on IndiaPRwire.com by India PR wire Pvt. Ltd. Ltd. 19-01-09). We need to take such types of scams as an opportunity in future for overhauling the system of corporate governance in India.

CONCLUSION

Good corporate governance may not be the engine of economic growth, but it is essential for the proper functioning of the engine the investors both National and International would be loyal to invest in the Indian companies if they follow all the standards of corporate governance practices (Bhat & Varun May 2007). Further, to nurture and strengthen this loyalty, our companies need to give clear-cut signal that the words "your company" have real meaning. That requires well functioning Board, greater disclosure, better management practices, and a more open, interactive and dynamic corporate governance environment. Quite simply, shares holders' and creditors' support are vital for the survival, growth and competitiveness of India's companies. Effectiveness of corporate governance system cannot merely be legislated by law neither can any system of corporate governance be static.

As competition increases, the environment in which companies operate also changes and in such a dynamic environment the systems of corporate governance also need to evolve. Failure to implement good governance procedures has a cost in terms of a significant risk premium when competing for scarce capital in today's public markets. Thus, the essence of corporate governance is in promoting and maintaining integrity, transparency and accountability in the management of the company as well as in manifestation of the values, principles and policies of a corporation. In order to make an honest and objective assessment on corporate governance practices we do need more laws but better enforcement because the effectiveness and the utility of good corporate governance practices rest on its enforceability. Ultimately, good corporate governance practices in India will be shaped by our administrative and regulatory authorities like SEBI, Ministry of Corporate Affairs, etc. by implementing transparent and effective corporate governance laws.

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chapter 6

Role of Governance in Mitigating Fraud in Indian Corporate

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ABSTRACT

The well- publicized corporate scandals of the recent years have brought the issues of fraud to the forefront of the management's attention. Fraud can have a devastating effects on corporate because it could result in significant financial loss and other long-term business repercussions such as loss of public trust. It can be an organization's worst nightmare that can cause losses and damage to the company's reputation or even leave organization's vulnerable to civil liabilities if third parties suffer losses from fraud.

In a rapidly changing business environment, it is vital for every company to develop integrated fraud strategy to address various issues relating to fraud detection and implement effectively to mitigate and curb corporate fraud for good corporate governance. This paper seeks to critically examine the ground realities of corporate frauds in the global context and focuses on the various reasons for different types of corporate frauds and its indicators in the Indian scenario. It also examines the role of Governance in mitigating corporate frauds in India.

Key Words: Corporate Frauds, Public Trust, Mitigation, Governance.

INTRODUCTION

India, in the past year had a multi-faceted fraud problem affecting the companies where exposure to fraud has been increased to 71% in 2012-13 compared to 67% of 2011-12. Indian companies should understand that they operate in a highly corrupted environment. In particular, over the last 12 months the country had an above average frauds in different dimensions like 33% of firms reporting loss due to incidence of theft of physical assets or stock, 24% of firms reporting loss due to corruption and bribery, 22% of firms reporting loss due to internal financial fraud or theft, 16% of firms reporting loss due to regulatory or compliance breach. It is noted that 33% of firms is affected by fraud due to Information Technology (IT) complexity. It is estimated that the average percentage of revenue lost due to different types of frauds in the year 2012-13 is 1.4%. (Kroll Global Fraud Report 2013-14).

Need for the study: It is evident from the companies Act 2013 that India will make it tougher for companies to commit fraud in the coming years as the main focus of this act is on stronger corporate governance, transparency and accountability. The Companies Act 2013 motivates the study and brings the ground realities of corporate frauds in the Indian Context.

Objectives of the Study

1. To study and understand the perspectives of corporate frauds in the global context.
2. To identify the various causes for committing frauds and its Indicators in Indian Scenario.
3. To understand the role of Governance in mitigating frauds in Indian companies.

CORPORATE FRAUDS – THE GLOBAL PICTURE

The level of fraud has increased by every measure in the past 12 months, reversing recent trends. It is observed that 70% of companies globally reported suffering from at least one type of fraud in 2013-14. (Kroll Global Fraud Report 2013-14). Table I provides the information regarding the percentage of companies affected by listed types of Fraud: **Table – I:** Fraud Related Information regarding 12 countries namely USA, Canada, Mexico, Columbia, Brazil, Europe, The Gulf States, Africa, Russia, India, China and Malaysia.

Listed Types of Frauds	2012	2013
Theft of Physical Assets	24%	28%
Information Theft	21%	22%
Management Conflict of Interest	14%	20%
Vendor, Supplier or procurement fraud	12%	19%
Internal Financial Fraud	12%	16%
Regulatory or compliance breach	11%	16%
Corruption & Bribery	11%	14%
Misappropriation of company's funds	8%	---*
Money Laundering	1%	3%
Market Collusion	3%	8%

Source: 2013/2014 Kroll Global Fraud Report *Information not Available

From the above table it is observed that the listed types of frauds has been increased in the year 2013 compared to 2012.

Table – II A: Fraud Related Information in the U.S.A.

Country		2012-2013	2011-2012
USA	Prevalence: Companies affected by Fraud	66%	60%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Theft of Physical Assets	24%	16%
	Information Theft, loss or attack	20%	26%
	Management Conflict of Interest	21%	16%
	Regulatory or compliance breach	---*	17%
	Increase in Exposure: Companies where exposure to fraud has increased	81%	66%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	44% (IT Complexity)	35% (IT Complexity)
	Average percentage of revenue lost to fraud	1.2%	1.1%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Theft of physical assets has been increased by 8%; Management conflict of interest by 5%; Overall exposure to fraud by 15%. It is also found that IT Complexity is the widespread factor that led companies to greater fraud exposure with 0.1% loss of revenue in the companies. Information Theft, Loss or attack has been reduced by 6%.

Table – II B: Fraud Related Information in CANADA

Country		2012-2013	2011-2012
CANADA	Prevalence: Companies affected by Fraud	69%	47%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	29%	---*
	Management Conflict of Interest	29%	14%
	Theft of physical assets or stock	20%	24%
	Increase in Exposure: Companies where exposure to fraud has increased	83%	58%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	31% (IT Complexity)	31% (IT Complexity)
	Average percentage of revenue lost to fraud	1.7%	0.6%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is found that there is an overall increase in the percentage of companies affected by fraud. Theft of physical assets has been decreased by 4%; Management conflict of interest has been increased by 15%; Overall exposure to fraud increased by 25%. It is also found that IT Complexity is the widespread factor that led companies to greater fraud exposure with 1.1% loss of revenue in the companies.

Table – II C: Fraud Related Information in Mexico:

Country		2012-2013	2011-2012
MEXICO	Prevalence: Companies affected by Fraud	63%	59%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	----*	26%
	Vendor supplier procurement Fraud	23%	19%
	Theft of physical assets or stock	30%	19%
	Corruption and Bribery	25%	15%
	Internal Financial Fraud	25%	---*
	Regulatory Compliance Breach	20%	---*

	Increase in Exposure: Companies where exposure to fraud has increased	83%	58%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	31% (IT Complexity)	31% (IT Complexity)

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is fact that there is an overall increase in the percentage of companies affected by fraud. Vendor supplier procurement fraud has been increased by 4%; Management conflict of interest has been increased by 15%; Theft of physical assets or stock increased by 11%; Corruption and bribery by 10%; Overall exposure to fraud increased by 25%. It is also found that IT Complexity is the widespread factor that led companies to greater fraud exposure with 1.1% loss of revenue in the companies.

Table – II D: Fraud Related Information in Colombia:

Country		**2012-2013**	**2011-2012**
COLOMBIA	Prevalence: Companies affected by Fraud	63%	49%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Vendor supplier procurement Fraud	20%	19%
	Theft of physical assets or stock	37%	19%
	Corruption and Bribery	17%	---*
	Regulatory Compliance Breach	---*	14%
	Increase in Exposure: Companies where exposure to fraud has increased	90%	46%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	47% (High Staff Turnover)	24% (IT Complexity)
	Average percentage of revenue lost to fraud	0.7%	0.4%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Vendor supplier procurement fraud has been increased by 1%; Theft of physical assets or stock increased by 18%; Overall exposure to fraud increased by 44%. It is also found that High Staff Turnover is the widespread factor that led companies to greater fraud exposure with 0.3% loss of revenue in the companies.

Table – II E: Fraud Related Information in Brazil.

Country		2012-2013	2011-2012
BRAZIL	Prevalence: Companies affected by Fraud	74%	54%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	19%	14%
	Vendor supplier procurement Fraud	23%	---*
	Theft of physical assets or stock	37%	17%
	Internal Financial Fraud	16%	---*
	Management Conflict of interest	26%	23%
	Increase in Exposure: Companies where exposure to fraud has increased	86%	74%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	42% (Staff high turnover)	34% (Entry into new, riskier markets)
	Average percentage of revenue lost to fraud	1.7%	0.5%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Information theft, loss or attack increased by 5%; Theft of physical assets or stock increased by 20%; Overall exposure to fraud increased by 12%. It is also found that High Staff Turnover is the widespread factor that led companies to greater fraud exposure with 1.2% loss of revenue in the companies.

Table – II F: Fraud Related Information in Europe

Country		2012-2013	2011-2012
EUROPE	Prevalence: Companies affected by Fraud	73%	63%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	25%	18%
	Management Conflict of Interest	21%	---*
	Theft of physical assets or stock	28%	23%

	Internal Financial Fraud	17%	---*
	Vendor supplier procurement Fraud	17%	---*
	Increase in Exposure: Companies where exposure to fraud has increased	77%	56%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	37% (IT Complexity)	27% (IT Complexity)
	Average percentage of revenue lost to fraud	1.2%	0.8%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Information Theft, loss or attack increased by 7%;Theft of physical assets or stock increased by 5%; Overall exposure to fraud increased by 21%. It is also found that IT Complexity is the widespread factor that led companies to greater fraud exposure with 0.4% loss of revenue in the companies.

Table – II G: Fraud Related Information in the Gulf States:

Country		**2012-2013**	**2011-2012**
THE GULF STATES	Prevalence: Companies affected by Fraud	72%	49%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	35%	---*
	Management Conflict of Interest	24%	15%
	Theft of physical assets or stock	17%	18%
	Internal Financial Fraud	17%	---*
	Vendor supplier procurement Fraud	30%	---*
	Market Collusion	28%	---*
	Increase in Exposure: Companies where exposure to fraud has increased	89%	54%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	43% (Staff high turnover)	23% (Entry into new, riskier markets)
	Average percentage of revenue lost to fraud	1.6%	0.5%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Management conflict of interest increased by 9%; Theft of physical assets or stock increased by 1%; Overall exposure to fraud increased by 35%. It is also found that High Staff Turnover is the widespread factor that led companies to greater fraud exposure with 1.1% loss of revenue in the companies.

Table – II H: Fraud Related Information in Africa

Country		2012-2013	2011-2012
AFRICA	Prevalence: Companies affected by Fraud	77%	77%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	19%	34%
	Management Conflict of Interest	22%	55%
	Theft of physical assets or stock	47%	32%
	Internal Financial Fraud	27%	30%
	Vendor supplier procurement Fraud	23%	---*
	Corruption and Bribery	30%	20%
	Regulatory and Compliance Breach	22%	---*
	Mis appropriation of company's funds	17%	---*
	Increase in Exposure: Companies where exposure to fraud has increased	86%	73%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	48% (IT Complexity)	50% (IT Complexity)
	Average percentage of revenue lost to fraud	2.4 %	1.6%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Information Theft, loss or attack has been decreased by 15%; Management conflict of interest decreased by 33%;Theft of physical assets or stock increased by 15%; corruption and bribery increased by 10%;Internal Financial Fraud decreased by 3%; Overall exposure to fraud increased by 13%. It is also found that IT Complexity is the widespread factor that led companies to greater fraud exposure with 0.8% loss of revenue in the companies.

Table – II I: Fraud Related Information in Russia

Country		2012-2013	2011-2012
RUSSIA	Prevalence: Companies affected by Fraud	76%	61%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	29%	26%
	Management Conflict of Interest	24%	---*
	Theft of physical assets or stock	15%	26%
	Internal Financial Fraud	18%	---*
	Vendor supplier procurement Fraud	23%	---*
	Corruption and Bribery	32%	16%
	Increase in Exposure: Companies where exposure to fraud has increased	74%	52%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	35% (IT Complexity)	23% (Entry into new, riskier markets)
	Average percentage of revenue lost to fraud	1.9 %	0.4%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Information Theft, loss or attack has been increased by 3%; Theft of physical assets or stock decreased by 11%; corruption and bribery increased by 16%;Overall exposure to fraud increased by 22%. It is also found that IT Complexity is the widespread factor that led companies to greater fraud exposure with 1.5% loss of revenue in the companies.

Table – II J: Fraud Related Information in India

Country		2012-2013	2011-2012
INDIA	Prevalence: Companies affected by Fraud	69%	68%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		
	Information Theft, loss or attack	24%	23%
	Management Conflict of Interest	16%	---*
	Theft of physical assets or stock	33%	27%
	Internal Financial Fraud	22%	22%
	Vendor supplier procurement Fraud	20%	20%
	Corruption and Bribery	24%	20%
	Regulatory and Compliance Breach	16%	---*
	Increase in Exposure: Companies where exposure to fraud has increased	71%	67%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	33% (IT Complexity)	43% (IT Complexity)
	Average percentage of revenue lost to fraud	1.4 %	1.2%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Information Theft, loss or attack has been increased by 1%; Theft of physical assets or stock increased by 6%; corruption and bribery increased by 4%; Internal Financial Fraud(22%), Vendor supplier procurement fraud(20%) is same in both 2011-12 and 2012-13. Overall exposure to fraud increased by 4%. It is also found that IT Complexity is the widespread factor that led companies to greater fraud exposure with 0.2% loss of revenue in the companies.

Table – II K: Fraud Related Information in China

Country		2012-2013	2011-2012
CHINA	Prevalence: Companies affected by Fraud	67%	65%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:		

	Information Theft, loss or attack	21%	---*
	Management Conflict of Interest	20%	---*
	Theft of physical assets or stock	23%	27%
	Vendor supplier procurement Fraud	18%	---*
	Corruption and Bribery	---*	19%
	Regulatory and Compliance Breach	15%	---*
	Increase in Exposure: Companies where exposure to fraud has increased	80%	69%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	44% (Increased outsourcing and off shoring)	40% (Entry into new, riskier markets)
	Average percentage of revenue lost to fraud	1.2 %	0.8%

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that there is an overall increase in the percentage of companies affected by fraud. Theft of physical assets or stock increased by 4%; Overall exposure to fraud increased by 4%. It is also found that increased outsourcing and off-shoring is the widespread factor that led companies to greater fraud exposure with 0.4% loss of revenue in the companies.

Table II L: Fraud Related Information in Malaysia, This is the first year that the fraud report has focused on Malaysia.

Country		2012-2013
MALAYSIA	Prevalence: Companies affected by Fraud	66%
	Areas of Frequent Loss: Percentage of firms reporting loss to this type of fraud:	
	Theft of physical assets or stock	34%
	Vendor supplier procurement Fraud	25%
	Regulatory and Compliance Breach	16%
	Increase in Exposure: Companies where exposure to fraud has increased	69%
	Most widespread factor leading to greater fraud exposure and percentage of firms affected	41% (Increased outsourcing and off shoring)
	Average percentage of revenue lost to fraud	0.6 %

Source: 2013/2014 Kroll Global Fraud Report; *Information not Available

From the above it is evident that 66% of firms is affected by fraud where 34% is from theft of physical assets or stock; 25% is from vendor supplier procurement fraud; 16% from regulatory and compliance breach; 69% is Overall exposure to fraud; It is also found that increased outsourcing and off-shoring is the widespread factor that led companies to greater fraud exposure with 0.6% loss of revenue in the companies.

Causes and Indicators of Corporate Frauds in India: Causes for Committing Corporate Fraud

Source: Joseph T. Wells (1997) Occupational Fraud and Abuse, Obsidian publishing co.

Opportunity: The most common reason company's commit fraud had little to do with opportunity, but more with motivation - the more dissatisfied the employee in the company, the more likely he or she wants to engage in criminal behavior.

Pressure: The most common reason company's commit fraud is to meet their financial obligations.

Rationalization: Company's perceive an opportunity to commit and conceal their crimes, and be able to rationalize their offenses as something other than criminal activity.

Indicators of Corporate Fraud in Indian Scenario: From the Literature the following is the list identified as the Fraud Indicators that are given below:

- Missing expenditure vouchers and unavailable official records
- Crisis management coupled with a pressured business climate
- Profitability declining
- Excessive variations to budgets or contracts
- Refusals to produce files, minutes or other records
- Increased employee absences
- Covering up inefficiencies
- Staff turnover is excessive
- Figures, trends or results which do not accord with expectations
- Bank reconciliations are not maintained or can't be balanced
- Excessive movement of cash funds

- Unauthorized changes to systems or work practices
- Employees with outside business interests or other jobs
- Large outstanding bad or doubtful debts
- Lowest tenders or quotes passed over with scant explanations recorded
- Employees with an apparently excessive work situation for their position
- Managers bypassing subordinates
- Subordinates bypassing managers
- Excessive generosity
- Large sums of unclaimed money
- Large sums held in petty cash
- Lack of clear financial delegations
- Poor morale of employees
- Excessive control of all records by one officer
- Poor security checking processes over staff being hired
- Unusual working hours on a regular basis
- Refusal to comply with normal rules and practices
- Personal creditors appearing at the workplace
- Absence of controls and audit trails.
- Altering contract specifications

Role of Governance in Mitigating Frauds in Indian Companies

The Companies Act 2013 its provisions and the new legislations have a positive effect in improving corporate governance across Indian business. It is aimed to improve the transparency and accountability in Indian corporate sector.

A. As per the act, the role of Independent directors have been provided statutory recognition, which was previously only defined for listed companies through the listing agreement.

B. It also describes the code of conduct for the functions, roles and responsibilities of Independent directors. Section 149 details out the various criteria for a person to be appointed as an Independent director, remuneration, tenure and the set of comprehensive guidelines to be followed by the corporate sector. Section 149(12) of the act has transformed the concept of liability of Independent director, making them prima facie guilty if they had knowledge of the matter and consented, connived or showed lack of diligence.

C. In absolute compliance with the requirement of clause 49 of the listing agreement, under the section 149 of the act is required to have at least one third of the total number of directors in the board as Independent directors. This provision is a mile stone as far as corporate governance norms are concerned.

D. Providing additional powers to the Serious Fraud Investigation Office(SFIO), a multi-disciplinary organization under the Ministry of Company Affairs(MCA), is yet another landmark development in strengthening the enforcement powers of the regulatory bodies.

E. The market regulator SEBI, has brought in a new regulation to incorporate various provisions detailed in the Act and revamp the current norms pertaining to the remuneration of top management, class action suits, whistleblower protection, audit committees, independent directorships and corporate social responsibility(CSR) spends, related- party transactions, among others.

F. Another major step by Government of India is setting up of an anti-graft ombudsman to check corruption, with the presidential assent being accorded to the Lokpal Bill that was passed by the parliament.

G. The Ministry of Corporate Affairs (MCA), has released the National Voluntary guidelines on Social, Environmental and Economic Responsibilities of Business ('Guidelines"), a refinement of the Corporate Social Responsibility Voluntary Guidelines, 2009 provide framework for all business, irrespective of size, market and locations for responsible action, to be chosen and adopted by organizations voluntary as per their own preference.

H. Activism through a range of activities such as whistle blowing, active participation in general meetings, press campaigns etc from the institutional investor has only recently started gaining traction and is now being seen as an effective tool for bringing-in transparency.

Findings

1. It is found that overall exposure to fraud has been increased in all select 12 countries taken for the study.
2. It is found that the percentage of firms affected by fraud is same in Africa (77%) for two years from 2011-12 and 2012-13.

3. IT Complexity is the most widespread factor leading to the greater fraud in six countries namely USA, Canada, Mexico, Europe, Africa and India.

CONCLUSION

Fraud is ubiquitous; it does not discriminate in its occurrence. And while anti-fraud controls can effectively reduce the likelihood and potential impact of fraud, the truth is that no entity is immune to this threat. Unfortunately, however, many organizations still suffer from an "it can't happen here" mindset. To help combat this misconception, to raise public awareness about the cost and universal nature of fraud and to support anti-fraud practices around the globe, companies and their investors should look at fraud and leakages emanating from fraud issues in a wholesome perspective. Addressing the contemporary corporate governance issues often requires businesses to complement the forces outside the company such as market and the regulator with a participatory approach from the board and the management.

The changes in the governance standards driven by regulatory/ compliance regime, Internal or voluntary initiatives, Activism amongst non-promoter stakeholders(Private equity investors, analyst etc.,) encourage Indian businesses to evaluate the existing corporate governance practices and strengthen their policy framework.

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- (Disclaimer: Table- I, Table- II i.e., (Table IIA- IIL) is only a compilation of data from different reports and studies. The author(s), journal or institute is neither responsible nor liable for the data/ information and its authenticity)

chapter

7

Forensic Accounting: A Dynamic Approach to Check Corporate Malpractices Aiming to Strengthen Governance Mechanism

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ABSTRACT

With the globalisation of trade and commerce and economic liberalisation the style of doing business changed and it came up with complex trade patterns and international angles which are backed by some advantages as well as some drawbacks which include increase in financial crimes such as, scams and frauds including White Collar Crimes. These financial crimes have now become a real threat across almost all the developing countries which necessitated wide spread application of Forensic Accounting. Forensic Accounting in simple sense is thus just a border pitch of accounting. It, with the help of professional accounting skills aims to practically find out the anticipatory or actual fraud or crimes by way of manipulation of accounts or corporate malpractices. Thus, with forensic accounting we can say that this is the beginning of a new era where it will be helpful for the accountant to detect planning of fraud, attempt to fraud and also the consequences of such fraud with not much time lag to strengthen governance mechanism. The new Companies

Act, 2013 has also recognised its urgent need and issued Rules under Chapter XIV which relates to Inspection, Inquiry and Investigation. The present paper thus aims at to present a brief profile of financial corporate scams and frauds that occurred worldwide as well as in India during the past. This work further aims at to set Forensic Accounting as an essential tool to detect and early prevention of such scams and frauds from their occurrences justifying its due recognition in context of contemporary accounting and reporting practices at corporate level in India.

Key Words: Corporate Governance, Financial Crimes, Forensic Accounting, Globalisation and White Collar Crime.

INTRODUCTION

In the years since the Second World War, and especially during the past two decades, the concept of globalisation of trade and commerce along with economic liberalisation across the globe brought about radical changes in corporate business environment resulting in cut-throat competition among corporate houses which forces to carry out activities and transactions at larger level. These large number of transactions with large number of people results in hectic and condensed mode of activity and hence give birth to financial crimes and scams at all levels. This in turn affects the economy as a whole. In this backdrop there is a need for widespread recognition of forensic accounting at corporate level to strengthen governance mechanism. The need for this accounting system arose due to failure of auditing system in the business firms as the internal audit and other regulatory measures failed to sketch the errors in the managerial system. The need for fraud detection as well as prevention at corporate level is necessary but the degree of protection varies from one company to the other depending upon the size. At this point the forensic accounting which eliminates the business ills characterised by array of irregularities and illegal activities needs due recognition.

Forensic accounting is in short a specialised field of accounting which investigates frauds and analyse financial information to be used in legal proceedings with the use of tools like accounting, auditing, investigation and professional skill. It is basically an examination of evidence to be carried out in proceedings of the court. Forensic accounting not only detects frauds but also prevent them from their occurrences in future. Forensic Accounting, at present has emerged as a valuable medium to identify, classify and trial financial transactions that were previously improperly griped or authenticated. In this work the researcher has expressed quantitative analysis of financial frauds and scams which were committed at different time points by the white collar corporate officials, resulted in breakdown of global financial system. Further, the researcher tried to list inferences in favour of the proposition set in this work after its due verification.

CONCEPT AND ORIGIN – SURVEY OF LITERATURE

Enofel et al. (2013) in their work mentioned about the origin of the term 'Forensic Accounting'. In their work they have mentioned about Peloubet M. E (1946) who for the first time propounded the term 'Forensic Accounting' in his work "Forensic Accounting: Its Place in Today's Economy". However, when we study Indian history regarding the origin of Forensic Accounting then we should not ignore some of the historic characters like, Kautilya and Birbal. Kautilya was the first person to mention the famous forty ways of embezzlement in his famous Kautilya's *arthashastra* during the ancient mauryan times. Also, Birbal, the scholar in the time of King Akhbar can in no way be forgotten. He used his various tricks to investigate various crimes. Birbal's famous Litmus Test inculcated into stories gives a brief idea of fraud examining and investigation. But actual credit goes to Chetan Dalal, who actually applied the stories of Birbal in the investigation of frauds. He has also explained how Birbal's trap and Birbal's Litmus test approaches are significantly being used while investigating the accounting fraud.

George M.A in his book "Financial Investigation and Forensic Accounting" defined Forensic Accounting as the science of gathering and presenting financial information in a form that will be accepted by a court of jurisprudence against perpetrators of economic crimes (Wadhwa L. and Pal V., 2012). Further, According to American Institute of Certified Public accountants (AICPA), Forensic Accounting is the application of accounting principles, theories and disciplines to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge (Pooja, 2014).

OBJECTIVE OF THE STUDY

To set forensic accounting as a rational approach in dealing with present day increasing corporate malpractices and white collar crimes justifying its due recognition in context of contemporary accounting and reporting practices at corporate level to strengthen governance mechanism in India.

Research Method

The work is based on review of date collected from both primary (the Statute) as well as secondary (publications) sources. The work is carried on in compliance with the appropriate legal provisions as envisaged in the Companies

Act of 2013, which is at present in force. Statistical tools such as, tables, graphs, flow charts and percentage etc have been used for logical presentation and analysis of data. The work has been compiled in different segments addressing the problem cited in this work.

INVESTIGATION INTO THE PROBLEM CITED

There is no doubt that increasing trend of financial crimes such as, scams, frauds including White Collar Crimes that witnessed over the last few years necessitating wide spread forensic accounting practices at corporate level but the question arises what actually constitute these financial crimes. We have identified a number of factors which may be responsible for such financial crimes. Figure (1) in this work listed about factors which may be responsible for causing such financial crimes, each one jointly as well as individually contribute to the same.

Fig. 1: Contributors of Financial Crimes

Financial crimes have now become a global concern in almost all the developing countries be it private or public sector organisations. During the last few decades there have been a lot of cases relating to these financial crimes. It has now become so common that now it is being considered as the normal way of life. It is like a rattrap for the humans and every person (with some obvious exceptions) is in a way or other are getting trapped into it.

FINANCIAL CORPORATE FRAUDS AT GLOBAL LEVEL: A FEW STATISTICS

Countries be it developed, developing or underdeveloped, there are numerous cases of reported scams and scandals. In fact in many cases great leaders, government officials and famous people are also convicted for being engaged in such corporate frauds and crimes. An outline of the companies with their countries where such frauds were committed and subsequently reported is given in table (1).

Table 1: Statistics of Frauds World Wide

Companies	**Country**	**Companies**	**Country**
HIH Insurance, Harris Scarfe and One Tel	Australia	Adecco International	Switzerland
ComRoad, Phenomedia, MLP, Hugo Boss, Nici, Zapf Creation	Germany	Barings Bank Equitable Life, Wiggins, Versailles	UK
Baan Company, Ahold NV, LCI Computer, Landis	Netherlands	Gescartera, Bafisa, Afinsa and Forum Filatelico	Spain
Dynamic Life, Ipirotiki Software	Greece		
Parmalat, Freedomland, Finmatica	Italy		
Global Crossing	Bermuda	PT Bank Bali, Sinar Mas Group	Indonesia
Nortel Networks	Canada	Bangkok Bank of Commerce	Thailand
Elan	Ireland	United Engineers Bhd	Malaysia
ABB, Skandia, Prosolvia	Sweden	Samsung Electronics, Hyundai	Korea
Vivendi Universal	France	IHI, Sanyo Electric	Japan
Adelphia Communication, IBM, Enron, Xerox, Madoff Securities, Lehman Brothers	USA	Zhengzhou Baiwen, Shandong Bohai, Jinzhou Port, Kelon	China

Source: European Journal of Accounting Auditing and Finance Research (Bhasin M.L, 2013)

FINANCIAL CORPORATE FRAUDS AT NATIONAL LEVEL: A FEW STATISTICS

India, being an emerging and developing country has also undergone many scams and scandals. According to KPMG Fraud Survey white-collar crime in corporate India has undergone a considerable increase over the last two years. The incidence of fraud had increased by 10% from 2010 to the same survey in 2012. The latest report by Transparency International, a UK-based anti-corruption organization also ranks India 88 out of 180 countries in terms of corruption. As per the reports and surveys in India, we are having an adverse impact on international investors and entrepreneurial spirit in India (Chakrabarti M, 2014). Some of the leading reported cases of such financial crimes committed in India are given in table (2).

Table 2: Statistics of Scams in India

Scams and Frauds	Year	Losses suffered (Rs.)	Scams and Frauds	Year	Losses suffered (Rs.)
Harshad Mehta Securities Market Scam	1991	5, 000 Crore	Madhu Cora Scam	2009	4, 000 Crore
Fodders Scams (Chara Ghotola)	1992	950 Crore	Commonwealth Games Scam	2010	2,342 Crore
C. R. Bhansali Scam	1995	1, 200 Crore	Adarsh Hosing Society Scam	2010	-
Ketan Parekh Securities Market Scam	1995	1, 250 Crore	Sahara India Pariwar Investor Fraud Scam	2010	25, 000 Crore
The UTI Scam	2001	4, 800 Crore	Coal Block Allocation/ Coalgate Scam	2012	1.856 Billion
Uttar Pradesh Food Grains Scams	2003	35, 000 Crore	Karnataka Wakf Board Land Scam	2012	20, 000 Crore
Satyam Scam	2003	10, 000 Crore	Uttar Pradesh NHRM Scam	2012	10, 000 Crore
The 2G Spectrum Distribution Scam	2008	1, 75, 000 Crore	Saradha Group Financial Scandal	2013	200-300 Billion

Source: IJAER (Wadhwa L. and Pal V., 2012)

In almost all the cases stated in table (2), forensic accounting is being used as an investigative tool rather than preventive tool. Forensic accounting can be used in both ways, as an investigative tool as well as a preventive tool. Forensic Accounting in India is still in developing stage in absence of any statutory mandate. If this Accounting technique would have been practiced duly then it could have been possible to prevent commissioning of such frauds and scams at the very early stage of their planning but nevertheless, Forensic Accounting as an investigative tool has played an important role in pointing out cases of frauds and scams. These cases are now under trial in the Indian Courts and final verdict is yet to be given.

Table 3: Cost of Frauds in India, Asia & Pacific and Global

Sl. no.	Items of loss	India	Asia and Pacific	Global
1	Direct Loss (Average in US $)	15, 35, 217	14, 38, 526	24, 20, 700
2	Management Cost (Average in US $)	10, 29, 184	4, 16, 393	5, 50, 355
3	Damage to reputation or brand (% of cases)	92	89	88
4	Decline in staff morale (% of cases)	88	92	88
5	Damage to external business relation (% of cases)	84	87	84
6	Strained relations with regulator (% of cases)	75	83	80
	Total cost of fraud	25, 64, 401	18, 54, 919	29, 71, 055

Source: The 4th Biennial Global Economic Crime Survey India (PWC, 2007)

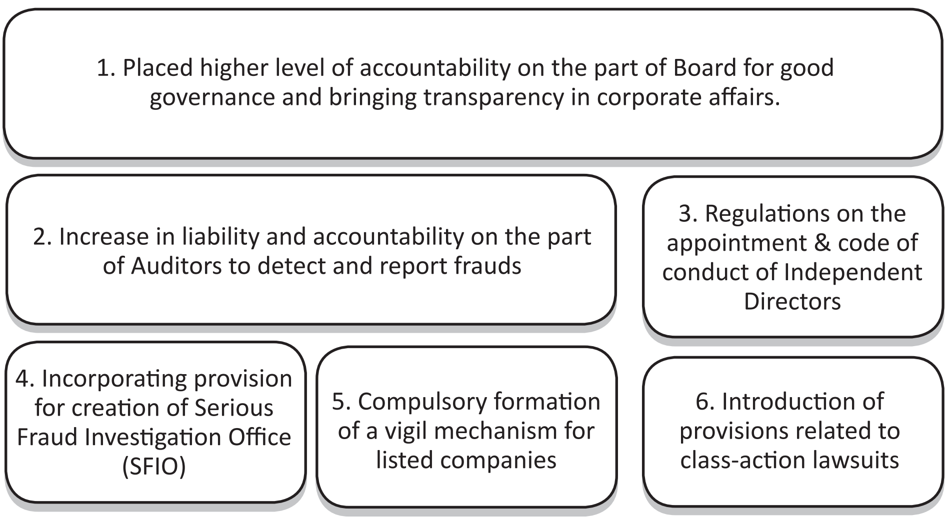
Table (3) shows the total cost of frauds committed in India, Asia & Pacific and in other parts of the world. As the figures show, Companies in India alone has suffered an average direct loss amounting to US $ 15, 35, 217 against such frauds taking into account two years figure viz. 2005 and 2006. More importantly, the cost of managing fraud – that includes legal costs, the cost of investigating frauds, stakeholder management and public relation costs – is also very high in compression to direct loss to the country.

REFERRING THE LEGAL PROVISIONS

Companies Act, 1956, after remaining in force for around fifty-five years got replaced by the new Act of 2013. The Act is a comprehensive legislation regulating affairs of the companies. The Act has incorporate provisions for improved level of transparency in connection with good governance practices in companies. Further the Act under Chapter XIV incorporated specific provision for appointment of persons by the Central Government, having expertise in the fields of investigations, cyber forensic, financial accounting, management accounting, cost accounting and any other fields as may be necessary for the efficient discharge of Serious Fraud Investigation Office (SFIO) functions (Companies Act, 2013).

Figure (2), herein briefly shows how the provisions of the Act created a framework to deal with anti – fraud strategy. In figure (2), item no 1 seems to be more effective in fighting with the frauds as compared to item no 6, being the least one.

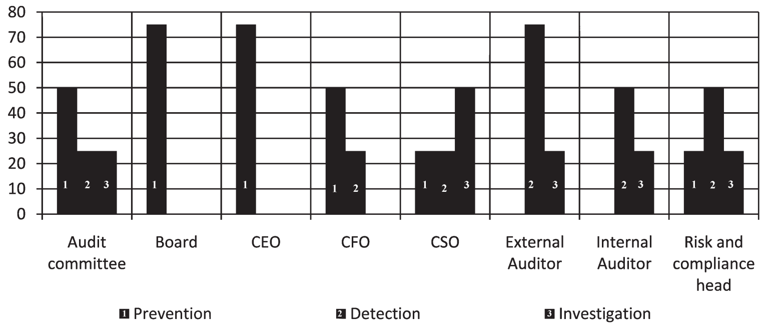
Fig. 2: The Companies Act, 2013 Dealing With Anti-Fraud Strategy



Persons Responsible for the Prevention, Detection and Investigation of Frauds

Graph (1) very briefly shows as to the persons who are tasked with carrying on the functions of Forensic Accounting, that is, prevention, detection and investigation of frauds in an organisation. As it is clear from the graph that, when it comes to prevention of frauds, it is the Board and CEOs, who are tasked with the prevention function followed by Audit committee, CSOs and Risk and

Graph-1: Classifying Role



Source: Excel Output

compliance head. Further, it is the CSOs accompanied by External Auditor, Internal Auditor and Risk and compliance head, etc who are tasked with investigation function. On the other, External Auditors are highly accountable and responsible for detection of frauds backed by Internal Auditor and Risk and compliance head in an organisation.

RESULTS AND DISCUSSION

After analysing all relevant data collected for our work it is found that (1) there are many instances of reported frauds and scams across the globe. They include companies from developed countries as well as companies from under developed nations. India being an emerging economy has also witnessed several frauds and scams during the past ranging from Harshad Mehta Securities Market Scam (1991) to the very recent Saradha Group Financial Scandal (2013) and Sahara Group (2014), such frauds and scams have become a common phenomenon destroying many business entities and weakening the economy as a whole; (2) it is found that the incidence of fraud in India had increased by 10% from 2010 to 2012 and also India has been ranked 88 out of 180 countries in terms of corruption; (3) the cost of managing fraud of a company in India is more or less, equivalent to the loss actually suffered by companies resulting from indulging into such frauds; (4) the study points out certain factors which are found to be responsible for commissioning of financial frauds and scams as presented in Figure (1); (5) the study finds about the persons who are actually tasked with detection, prevention and investigation of corporate frauds. Board and CEOs, are found to be tasked with prevention, on the other External Auditors are found to be tasked with detection of frauds and for investigation of fraud, it is the CSOs who are tasked with it. Further, out of total 42% of frauds committed by employees, 35% is found to be committed by senior management having authority and control upon the overall affairs of the company.

Further, the study finds that (6) Forensic Accounting in India is still in developing stage. It requires technological support and cooperation from international as well as national level organisations engaged in developing accounting policies and standards and other law enforcing agencies for its successful implementation; (7) Apart from conventional accounting tools like trend analysis, ratio analysis, fund flow analysis, cash flow analysis and common size statements, the study finds about few specialised Forensic Accounting tools such as Benfor's Law, Theory of relative size factor (RSF), Computer Assisted Auditing Tools (CAATS) and Data mining techniques; (8) In India there is a need for specific legislation to deal with risk of frauds and penalising the guilt. In United States of America, Sarbanes Oxley Act, 2002 created space for forensic accounting technique; (9) The professional accounting bodies and professional accountants have a role to work out appropriate methodology for successful implementation of forensic technology among the companies in India.

CONCLUSION

Finally, it is submitted that Forensic Accounting provides with the necessary tools to detect and prevent financial crimes to a very large extent, while, in India, it has not yet been recognised fully. This branch of accounting recently has come in the limelight due to rapid increase in financial crimes. Forensic Accounting has come up as an effective tool for preventing white collar crimes. It is being in a nascent stage requires technological reinforcement on a continuous basic and global cooperation. It is expected that this emerging branch of accounting will develop as a specialised profession of accountancy. The new Companies Act, 2013 incorporated provision in Chapter XIV under heading Inspection, Inquiry and Investigation in this regard. The Act also notified rules under Chapter XIV to tackle the risk of frauds and placed greater responsibility and accountability on Board, Independent Directors, Auditors and other committees associated with the Board. However the present work made an attempt to set forensic accounting as a rational approach in dealing with present day increasing financial crimes justifying its due recognition in context of contemporary accounting and reporting practices at corporate level in India. The work invites further research in line with the proposition set herein.

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chapter 8

Corporate Governance in India: It's Relevance in Public Sector Enterprises

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ABSTRACT

Good corporate governance (GCG) is a mandatory requirement in today's corporate world by every stakeholder groups. Failure of giant corporate groups in last two-three decades strengthens the demand further. This paper is a conceptual paper and is an attempt to make the concept of Corporate Governance understood in a very simple manner. The paper looks at the issues like how the concept of Corporate Governance is important in organizations, the objective of this concept, the performance expectation of all the stakeholders, and the need for corporate governance for *Strategic Thinking and Strategy Implementation* in an organisation. The mechanisms and controls, the impact of corporate governance on productivity for an organization and the recent research done in the Indian context is also looked in this paper. The various codes on corporate governance, which have evolved in India is also looked into in the paper. Implementation issues in the context of Indian companies are part of the paper. The role of corporate governance in public sector enterprises (PSEs) and the role of the apex body for public sector enterprises in India, Standing Conference of Public Enterprises (SCOPE) are also highlighted in the paper. This is contrasted with existing corporate governance practices in the private sector operating in India.

Keywords: Corporate Governance, Public Sector & Private Sector in India, Strategy Implementation Issues, Corporate Governance Codes in India, Standing Conference of Public Enterprises (SCOPE), Tata Consultancy Services (TCS)

INTRODUCTION

Corporate Governance refers to the relationship that exists between the different stakeholders for an organization, and defining the direction and performance of an organization or a corporate firm. The relevance of understanding of the issues and concerns and to have good corporate governance in letter and spirit has always been there for a sustained, sustainable growth for any organization. This issue has gained more importance, when we see many corporate scandals coming out in India as well as other parts of the world in recent past as those organizations did not apply good principles of corporate governance. The following bodies are the main actors in Corporate Governance.

(1) The Chief Executive Officer, i.e. the top person in the organization & the top management of the organization
(2) The board of directors
(3) The shareholders

The other actors who influence governance in corporations or firms are the employees, suppliers, customers, creditors and the community i.e. all the stake holders for the organization. A corporation can be defined as an instrument or a body by means of which capital is acquired, used for investing in assets producing goods and services, and their distribution (Prasad, Kesho, 2006).

In simple words the essence of corporate governance is set of mechanisms used to manage the relationship among stakeholders and to determine and control the strategic direction and performance of organizations. At its core, corporate governance is concerned with identifying ways to ensure that strategic decisions are made effectively (Hitt et al., 2012). Fernando (2012) gives the concept of what is Good Corporate Governance? He emphasizes that terms "Governance" and "Good Governance" are being increasingly used in development literature. Bad governance is being recognized now as one of the root causes of corrupt practices in our societies. He also emphasizes the company including its officers, including the board of directors and officials, especially the senior management, should strictly follow a code of conduct, which should have the obligation to society at large including the National interest, Political non-alignment, Legal compliances, Rule of law, Honest and Ethical Conduct, Corporate Citizenship, Social Concerns, Corporate Social Responsibility, Environment – Friendliness, Healthy and Safe working environment, Healthy Competition, Trusteeship, Accountability, Effectiveness and efficiency, Timely responsiveness, and Corporations should uphold the fair name of the country.

This direction and subsequent performance will determine the success/ failure of the organization. Hence the need to understand the issue of Corporate Governance is examined in the next section.

Why the Issue of Corporate Governance is Important?

The Corporate Governance reflects the company's values. Corporate governance has been emphasized in recent years because it has been shown in many companies worldwide, the governance mechanisms occasionally have failed to adequately monitor and control top-level mangers' decisions. Misangyi & Acharya (2014) findings suggest that high profits result when CEO incentive alignment and monitoring mechanisms work together as complements rather than as substitutes. Furthermore, they show that high profits are obtained when both internal and external monitoring mechanisms are present. Their findings clearly suggest that the effectiveness of board independence and CEO non-duality--governance mechanisms widely believed to singularly resolve the agency problem--depends on how each combine with the other mechanisms in the governance bundle. This situation has resulted in changes in governance mechanisms in corporations throughout the world, especially with respect to efforts intended to improve the performance of boards of directors. Robert Monks (2005), in his paper "Corporate Governance-USA-Fall 2004 Reform-The Wrong Way and the right Way", concludes that almost there is a universal agreement that the Corporate Governance in America is failing. Andrea Georgescherer and Guiclo Palazzo (2011) in their paper "The New Political Role of Business in Globalized World", conclude that under the conditions of globalization, the strict division of labour between private business and nation-state governance does not hold any more. Many businesses firms have started assuming social and political responsibilities that go beyond legal requirements and fill the regulatory vacuum in the global presence. A second and more positive reason for this interest is that evidence suggests that a well-functioning corporate governance and control system can create a competitive advantage for an individual firm. This is true for organizations worldwide including India.

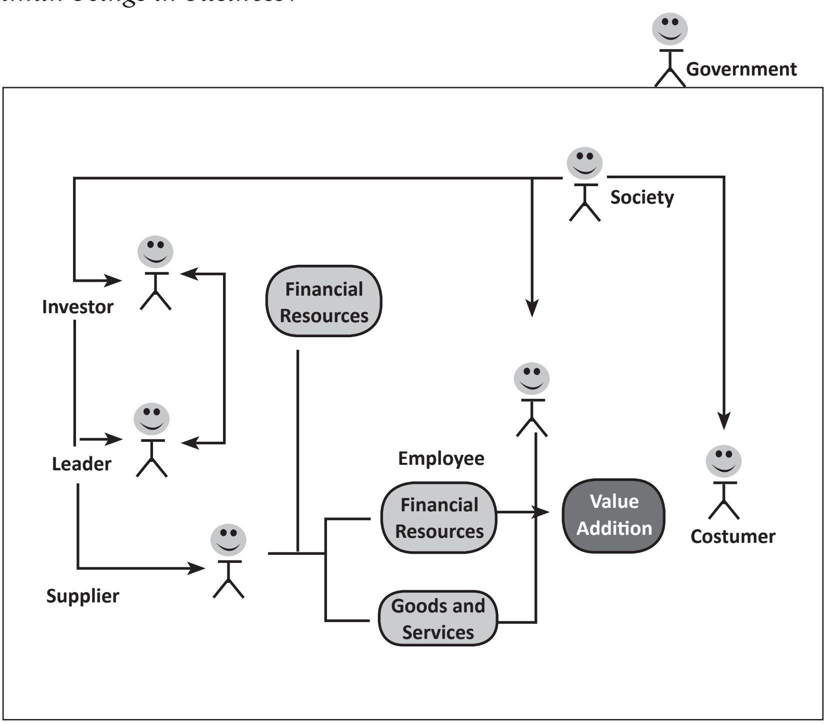
Objectives of Corporate Governance

- To build up an environment of trust and confidence amongst those having competing and conflicting interest.

- To enhance the shareholder' value and protect the interest of other stakeholders by enhancing the corporate performance and accountability.

The Stakeholders – As Human Being in Business

The stakeholders are the principal players in inception, sustainability, development and growth of any organization. They are shareholders, all employees of the company or organization, suppliers, customers, investors, banks, regulating agencies, government and community at large. All the means of production in an organization are utilized to create wealth for the community in general and stakeholders in particular. Everybody from supplier to customer, from investors to lenders, and from shareholders to stakeholders to the government is important in an organization. Manpower, Machinery and Money may travel from person to person, from place to place but the core of all the activities remains "People". This is depicted in (Fig.1) that *"All stakeholders are human beings in business".*



(*Source:* Parthasarthy Swami, 2007)

Tata Consultancy Services (TCS) has People embedded as one of the 3 Pillars of Corporate Sustain ability (the other 2 Pillars being Planet & Profits).

This is shown in (Fig.2). After 23 years, it has overtaken Reliance Industries Limited (RIL) to become India's most profitable corporate with net profit of Rs. 5,328 crores for quarter ending December 2014 (The Times of India, Jan 20, 2015).

Sustainability Strategy and Approach

TCS embodies the Tata group's philosophy of building sustainable businesses that are firm rooted in the community and demonstrate care for the environment. Towards this, TCS has adopted the *"triple bottom-line"* approach and recognized that People, Planet and Profit as the central pillars of corporate sustainability.

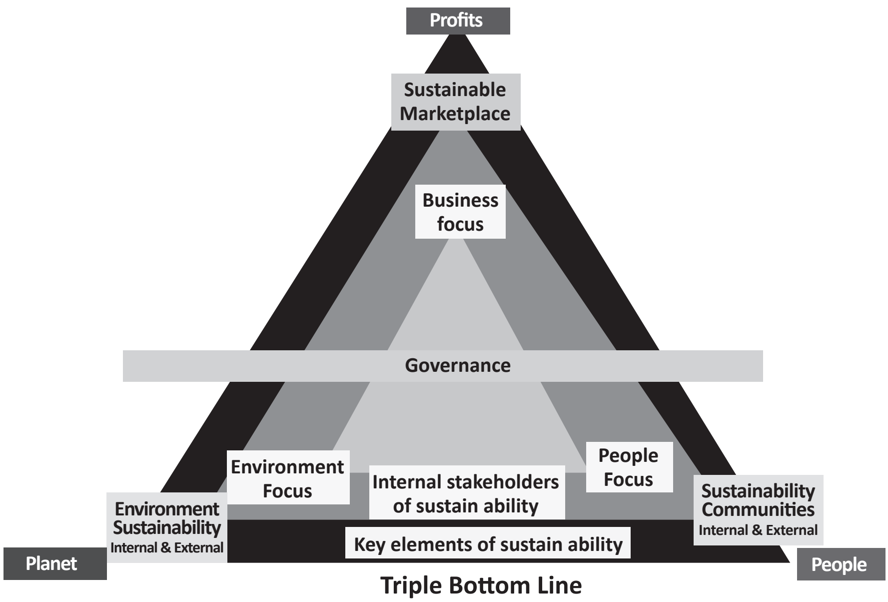


Fig. 2. Corporate Sustainability of TCS

(*Source:* Tata Consultancy Services: Corporate Sustainability Report 2013-14)

People: According to its Corporate Sustainability Report 2013-14, TCS has 300,464 employees. It conducts a wide range of CSR initiatives in the areas of education & skill building, health environment and affirmative action using volunteering, sponsorships and pro bono leveraging of its IT resources.

Planet: TCS engages in sustainable green development along with its supply chain partners. It is continually engaged in reducing its energy, water, material and carbon footprint.

Profits: To ensure profits, it tries to ensure sustainable marketplace by working across industry verticals to provide next generation sustainable services to customers.

The performance expectations of stakeholders as per Parthasarthy (2007) are given below in (Table. 1): **"Stakeholders and Performance Expectation"**

S.No.	Stakeholder	Performance Expectations
1	Investor	Expects high dividend and capital appreciation in the organization.
2	Lender	Expects timely repayment of loan and interest
3	Supplier	Expects fair terms and timely payments
4	Employee	Expects good working environment, fair remuneration and security
5	Customer	Expects Quality product & services at fair price (value for money)
6	Government	Expects the company to partner in nation building by paying taxes or directly spending on social projects
7	Society	Expects the company to use resources judiciously so as to maintain ecological balance and sustainable development and also partner in nation building.

Source: (Parthasarthy, 2007)

Need for Good Corporate Governance

Research has shown that good corporate governance can lead to improved share price performance. There is evidence that there is a great potential for good performance by companies, which have got good corporate governance mechanism and the greatest benefit is in developing companies. Studies have indicated that investors are keener to invest in a better-governed company. Corporate Governance can be a very powerful tool for development especially in country like India.

The following issues are important for good Corporate Governance.

- The rights and obligation of shareholders.
- Equitable treatment of all stakeholders.
- The role of all stakeholders clearly defined and the linkage for corporate governance established.
- Transparency, disclosure of information and audit.
- The role of board of directors clearly defined.
- The role of non-executive members of the board clearly defined.

- Executive management and compensation and performance clearly defined.

Mechanism and Control for Corporate Governance

The mechanism and controls are designed to reduce the inefficiencies that arise from moral incongruities and adverse selection. Ethical diversion is a very important issue for Corporate Governance, while designing mechanism and control. The issues could be:

- Monitoring the Role/effectiveness of the Board of Directors.
- Remuneration of the Board Members and other employees in the company.
- Responsibilities and accountability for Audit Committees-financial reporting process, monitoring the choice of accounting policies and principles, monitoring internal control process and policy decisions for hiring and performance of the external auditors.
- Issues and concerns of Government Regulations
- Understand the strategic issues of the competition
- Management labour market and concerns of control mechanisms.

The Impact of Corporate Governance on Productivity and the Corporate Sector in India

In India, the idea of Corporate Governance is relatively new. Traditionally few researchers have written about it. Narayanaswamy, R. et al (2012) provide a brief overview of **corporate governance in India**, including a description of Indian contextual differences (as compared to the U.S. and elsewhere) and a discussion of the major events contributing to the evolution of India's corporate governance/accounting/auditing practices since economic deregulation in 1991. They also offer an agenda for future research on important Indian governance/accounting/auditing issues, and briefly address accounting practice implications. The Corporate sector operated generally on a philosophy of cost of production plus in the protected economy. Since they were not exposed to any serious competition, Indian industries continued with existing technologies and remained insensitive about technological developments and happening, but this trend is changing in many corporate houses in due course of the time and the companies in India some of them are becoming very much competitive and are harnessing technological, process and product innovation to become global players in their field. All such companies in India have given lot of importance to the issue of corporate governance.

Bhattacharya, CB. et al in McKinsey Report (2011) talks about how companies can use Corporate Responsibility towards stakeholders as a conduit for furthering its goals. Ultimately stakeholders prefer companies which produce tangible and psychological benefits – which favor good Corporate Governance. Better governance reforms reduce uncertainty & are engines of stability and continued progress has helped Asian Corporate transform themselves during the period of globalization, as per report by Asian Productivity Organization, Tokyo in 2004 [12] [13].

The private corporate like the Tata Group, Aditya Birla Group, Infosys Technologies, Wipro Technologies, Godrej Group, Mahindra & Mahindra Group and Larson & Toubro (L&T.), of companies are giving a lot of importance to the issue of corporate governance. Some of them had understood this issue much better quite early, when they started their companies. Recently, Public sector companies in India, many of them, which have been, listed companies like Oil and Natural Gas Corporation (ONGC), Indian Oil Corporation Ltd., Bharat Heavy Electricals Limited (BHEL), National Thermal Power Corporation (NTPC), Gas Authorities of India Limited (GAIL), Engineers India Limited (EIL), Gujarat Alkalies & Chemicals Ltd., Bharat Electronics Limited (BEL), and other such companies are applying the codes of good corporate governance for their organizations. The guidelines and codes have evolved over a period in India by Securities Exchange Board of India (SEBI) and various Committee setup by the Parliament to come up with the guidelines on corporate governance to Indian Companies. This part is looked in the next part of this paper.

The Progress of Various Codes of Governance Which Have Evolved In India on the Issues of Corporate Governance

As earlier explained in this paper, the topic of Corporate Governance is increasingly finding acceptance for its relevance and underlying importance in the industry and capital markets. Progressive firms in India have voluntarily put in place systems of good corporate governance since a long time ago. Internationally also, while this topic has been accepted for a long time, the financial crisis in emerging markets has led to renewed discussions and are focused on the issue of corporate governance. In view of the increasing realization of the importance of corporate governance, various reports have been prepared at different points of time in India to look at the issue of corporate governance in the organizations & are listed below:

1	Report of the Committee on Corporate Governance in Listed Entities – amendments to Clauses 35B and 49 of the Equity Listing Agreement	(SEBI, Aug 30, 2013)
2	Report of the committee on Company Law	(May 31, 2004, headed by Dr J.J. Irani)
3	Report of the committee on regulation of private companies and partnership	(Naresh Chandra Committee – II, July, 2003)
4	The report of the SEBI Committee on Corporate Governance	(SEBI, Feb 8, 2003, headed by N.R. Narayana Murthy)
5	Report of the Committee (Naresh Chandra) on Corporate Audit and Governance	(SEBI, Dec 23, 2002)
6	Report of the Consultative group of Directors of Banks/financial institutions	(RBI, April 2002)
7	Report of the Advisory Group on Corporate Governance: Standing Committee on International Financial Standards and codes	(RBI, March 24, 2001)
8	Report of the task force on Corporate Excellence through Governance	(Dept. of Company affairs, Nov. 20, 2000)
9	Report of the Committee (Kumar Mangalam Birla) on Corporate Governance	(SEBI, May 7, 1999)
10	Desirable Corporate Governance: A Code	(Confederation of Indian Industry (CII), April 1998)

Implementation & Key Issues on Various Codes of Governance for Indian Companies

Birla Committee was constituted in May 1999 to promote and raise the standard of Corporate Governance in Indian Companies.

(1) The Mandatory Recommendations of the Birla Committee (1999) are

Applies to all listed companies.

- Composition of Board of Directors: - Optimum combination of Executive and Non-Executive Directors
- Audit Committee: - With three independent Directors with one having financial and Accounting knowledge
- Issues pertaining to having a remuneration committee to look into the remuneration of the Chairman, Managing Director (Chief Executive Officer) Board Members & other executive and employees of the organization.
- Board Procedures:
- At least 4 meetings of the Board in a year with maximum gap

of 4 months between two meetings. The meetings should review operational plans, capital budgets, quarterly results, and minutes of committee's meetings.

- A Director shall not be member of more than 10 committees and shall not act as chairman of more than 5 committees across all companies.
- Management discussion and Analysis report covering industry structure, opportunities, threats, risks, outlook, and internal control system.
- Procedure & mechanisms for information sharing with shareholders.

(2) Non-Mandatory Recommendations of Birla-Committee

The issues pertaining to:

- Role of Chairman, the Managing Director or the CEO
- Remuneration Committee of the Board
- Shareholders right for receiving half yearly Financial Performance
- Sale of whole or substantial part of the undertaking
- Corporate restructuring
- Venturing into new Business

(3) Implementation of Recommendations of Birla Committee Passed by the Indian Parliament

(4) By introduction of Clauses 49 in the Listing Agreement with Stock Exchange. Provisions of clause – 49 are:

- *Composition of Board-in case of full time Chairman, 50% Non-*Executive Directors and 50% Executive Directors.
- *Constituting of Audit Committee* – with 3 independent directors with Chairman having sound Financial Background, Finance Directors and internal Audit head to be special invitees and minimum of 3 meetings to be convened.
- *Responsible for review of financial performance on half yearly*/ annually basis/ appointment / removal / remuneration of auditors, review of internal control systems and its adequacy.
- *Remuneration of Directors: -* Remuneration of non-executive Directors to be decided by the board. Details of remuneration package, stock options, performance incentives of Directors to be disclosed.

- *Board Procedures: -* At least 4 meetings in a year. Director not to be member of more than 10 committees and chairman of more than 5 committees across all companies.
- *Management discussion & analysis report should include:*
  - ➢ Industry structure & Developments
  - ➢ Opportunities & Threats
  - ➢ Segment-wise or product-wise performance reports
  - ➢ Outlook of the industry and the organization
  - ➢ Risks and concerns for the organization
  - ➢ Internal control systems & its adequacy
  - ➢ Discussion on Financial performance
  - ➢ Disclosure by directors on material, financial and commercial transactions with the company.
- *Shareholder's Information:* Brief resume of new/re-appointed Directors, Quarterly results to be submitted to stock exchanges and to be placed on web site, presentation to analysis.
- Shareholders/Investors Grievance committee under the chairmanship of independent Director minimum 2 meetings in a year.
- Report on Corporate Governance and certificate from auditors on compliance of provisions of corporate governance as per clause – 49 in the listing agreement.

Recent Development on the Codes for Corporate Governance for Indian Companies

- A committee headed by Shri Naresh Chandra was constituted August 2002 to examine corporate audit, role of auditors, relationship of company & auditor.
- *The key recommendations of the Naresh Chandra Committee are given below:*
  - ➢ Recommended a list of disqualifications for Audit Assignments like Direct Relationship with company, any Business relationship with the client, and personnel relationship with the directors of the board.
  - ➢ Audit firms not provide services such as accounting, internal audit assignments etc. to audit clients.
  - ➢ Audit to disclose contingent liabilities & highlight significant accounting Policies.

- ➢ Audit Committee to be first point of reference for appointment of auditors.
- ➢ Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of listed company to certify on fairness, corrections of annual audited accounts.
- ➢ Redefinitions of independent Directors- Does not have any material relationship with the company.
- ➢ Composition of Board of Directors
- ➢ Statutory limit on the sitting fee to non-executive Directors to be reviewed.

These recommendations now have been formed part of companies (Amendment) Bill, 2003 by the Parliament of India.

- Securities Exchange Board of India (SEBI) constituted a committee headed by Shri N. R. Narayana Murthy to review existing code of corporate Governance. The major recommendations were:
  - ➢ Strengthening the responsibilities of Audit Committee
  - ➢ Improving the quality of Financial Disclosures
  - ➢ Utilizations of proceeds from IPO
  - ➢ To assess and disclose Business risk
  - ➢ Whistle Blower policy to be in place in a company providing Freedom to approach the Audit Committee.
  - ➢ Subsidiaries to be reviewed by Audit Committee of the holding company.
- Companies Act 2013 (CA 2013), which has replaced the Companies Act 1956 (CA 1956), has brought in some significant changes in Corporate Governance standards, including:

CA 2013 requires companies to have following classes of Directors as shown in Fig.3

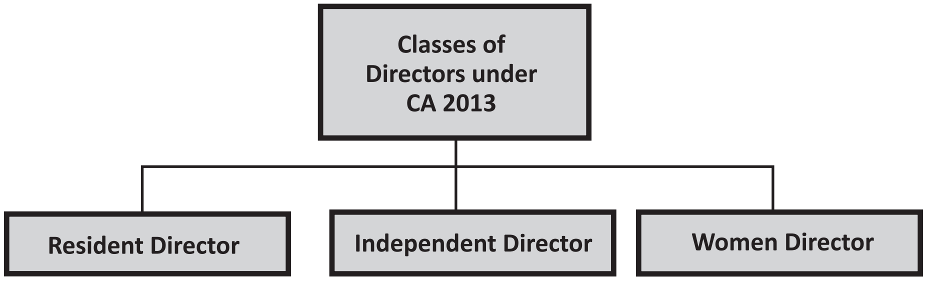


Fig. 3. CA 2013 Classes of Directors

Resident Director is a person who has stayed in India not less than 182 days in the previous calendar year. CA 1956 did not require appointment of Independent directors; CA 2013 makes it mandatory in line with Clause 49 of Listing Agreement with Stock Exchange, along with making it mandatory to have at least 1 Woman board director. Company Act 2013 (CA 2013) [14] obligates the board to constitute the following 4 committees as shown in Fig.4.

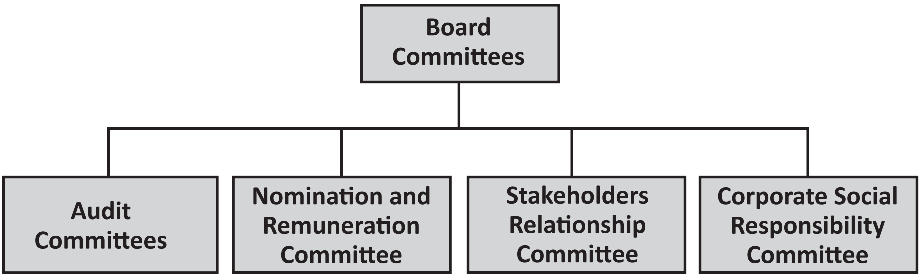


Fig. 4. CA 2013 Committees

CA 2013 has introduced key changes w.r.t. board meetings and processes. It permits directors to participate via audio visual means such as video conferencing, which recognizes the technological advances in communication globally.

Some Recent Research Work On Corporate Governance in the Context of India

Prasad (2014) commented that Indian corporate governance still leaves much to be desired. Starting from 1980s, India opened up its economy and is making all efforts to attract foreign direct investment. However the high-profile corporate failures, which seem to be recurring at regular intervals during last three decades, the latest one being Satyam computers exposed the weaknesses and insufficiency of corporate governance practices in India. Ineffective corporate governance can scare away both domestic and the foreign investors and can be detrimental to the economic growth of the country. The Indian government, fully aware of this fact, is trying to put in place an effective legal and regulatory frame work in order to improve the corporate governance. He concludes that its major weakness lies in the implementation.

In his paper, Bhalla (2012) has tried to find out the perception of different level of executives about corporate governance in India. Different Private and Public companies of India are compared and tried to examine if there is any relation between the performance of the companies and satisfaction of the investors in lieu of good governance practices in India.

Tuteja (2006) has studied the structuring of the Board as an important issue for corporate governance. He has analyzed the prevailing corporate management structure by studying the data of 100 companies operating in India. His study finds that there is a marked shift in favour of management by chief executive officer/whole time directors under the guidance of the Board of Directors. Liberalization in India seems to have an influence over the appointment of executive or whole-time directors. Company boards, however, are still dominated by non-executive directors especially due to the new rules relating to audit committees, and also due to requirements of appointment of independent directors by companies.

Dwivedi and Jain (2005) have also looked into corporate governance parameters including board size, director's shareholders, and institutional and foreign shareholding. They have looked at 340 large, listed Indian firms from the period of 1997-2001 across industry groups.

Desai (2000) has talked about "A beginning of Corporate Governance, the Companies (Second Amendment) Bill 1999 looks the issue of corporate governance in general in India at that point of time, the importance of company secretaries to ensure compliance by small companies, the Directors responsibilities in a Board of a company, the role of SEBI in the jurisdiction and control over companies, the guidelines on the companies to have minimum capital and Amendments concerning the auditors.

Centre for Corporate Governance – And the World Council for Corporate Governance

The Centre for Corporate Governance was established by Institute of Directors (India) with a view as to galvanizing good governance practices in corporate bodies affiliated to the World Council for Corporate Governance, part of World Bank group. Governance is concerned with empowering people, spurring and pursuing innovation and improving issues, which address conflict of interest, which can impose burdens on the enterprise. Ensuring transparency in corporate affairs can make a major contribution to improving business standards as explained in the early part of the paper.

There are other bodies like National Foundation for Corporate Governance in India (NFCG), which are organizing events/conferences or Corporate Governance trends issues and concerns in India with the help of the Govt. of India and confederation of India Industry (CII), also taking help from the World Bank Body called the World Council for Corporate Governance.

Dr. Y.R.K Reddy, Chairman, Yaga Consulting Pvt. Ltd. in India has been researching corporate governance with special emphasis on public enterprises and Banking (Reddy, Y.R.K. 2009).

Standing Conference of Public Enterprises (SCOPE) & the Concern for Corporate Governance

The Standing Conference of Public Enterprises (SCOPE), New Delhi had recognized in 1996 the need for Corporate Governance issues relevant to public sector undertakings in India i.e. those companies in India, where the Indian government has equity of 51% and above. SCOPE is an apex professional organization representing the central/state public enterprises, banks and other institutions. Its mission is to promote excellence in organizations, where public investments in involved. SCOPE is the apex body of Central Government owned Public Enterprises. SCOPE has all the central public enterprises, a few state government enterprises and some nationalized banks as its members. Companies getting the SCOPE Awards for Corporate Governance in recent years are:

Table 2: SCOPE Corporate Governance Awards & Winners

Year	Public Sector Enterprise (PSE)
2012-13	BPCL (Bharat Petroleum Corporation Limited)
2011-12	IOC (Indian Oil Corporation)
2010-11	SAIL (Steel Authority of India Limited)
2008-09	PNB (Punjab National Bank)
2007-08	GAIL (Gas Authority of India Limited)
2006-07	ONGC (Oil & Natural Gas Commission)
2005-06	NTPC (National Thermal Power Corporation)
2004-05	GACL (Gujarat Alkalies & Chemicals Limited)

Many private companies like Tata Steel, Tata Motors and other companies in the house of Tatas, Dr. Reddy Labs, Infosys Technologies, Wipro Technologies and others have understood the need of good Corporate Governance for sustainability for quite some time and evolved their organization on the codes of good Corporate Governance. Bhalla (2012) found in his study that the corporate governance practices of both public sector and private sector companies are almost similar. However, she found that there are greater political and bureaucratic influences in public sector versus private sector.

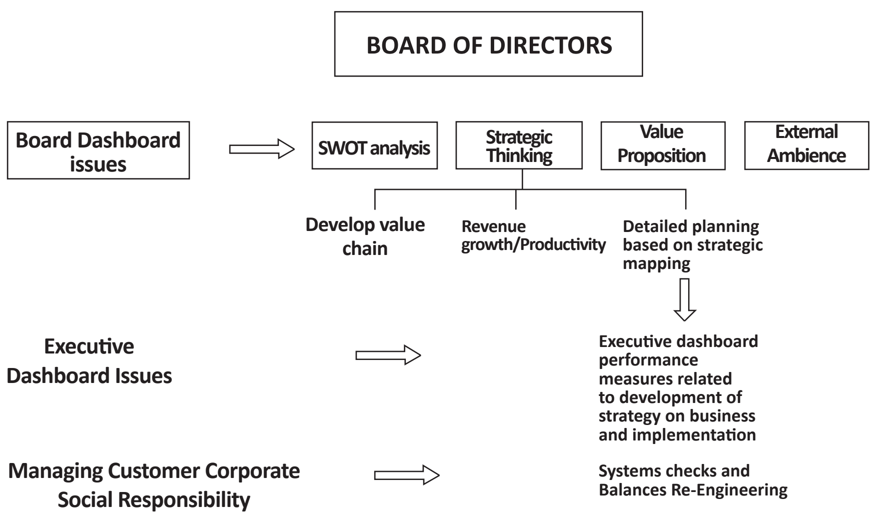
Public Sector Enterprises in India (PSEs), some of them also now figure in Fortune 500 Companies. The PSEs in India like Indian Oil Corporation Limited (IOCL), National Thermal Power Corporation (NTPC), Oil and Natural Gas

Corporation (ONGC), Bharat Heavy Electrical (BHEL), Steel Authority of India Ltd (SAIL), Gas Authority of India Ltd. (GAIL), Gujarat Alkalies and Chemicals Ltd., Bharat Electronics Ltd (BEL), Power Grid Corporation, Fertilizer Corporation of India Ltd. have been trying to improve the Corporate Governance in their organizations for moving toward Business Excellence and gain competitive advantage and sustainability in their industries for quite some time now. The PSEs and other companies in India understand the importance of Corporate Governance and institutionalized systems and procedures on issue of ethics, transparency, code of conduct of the Board Members, the Audit Committee, and other related mechanisms of control for good Corporate Governance for better strategy implementation and taking their companies towards excellence.

The Effectiveness and Total Board Performance and Corporate Governance as a Strategic Tool for Strategy Implementation: The effectiveness and total board performance depends on the strategic thinking by the board, a very important issue in Corporate Governance. This can be illustrated in Fig.5 given below through an adapted model on strategic thinking.

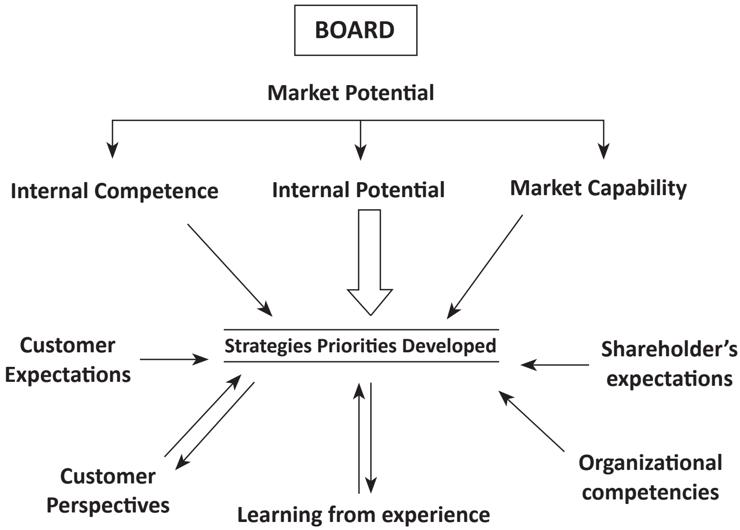
The Directorial Dashboard: As given by Garratt in the year 2003, the Directorial Dashboard concept gives an integration of the Corporate Governance and its relevance and Strategy Formulation & Implementation for an organization is given in Fig.6, as an Organizational Ecosystem.

Fig. 5. Strategic Thinking - A Model



(*Source:* Adapted from Prasad, Kesho, 2006)

Fig. 6. Organizational Ecosystems



(*Source:* Adapted from Prasad, Kesho, 2006)

CONCLUSION

This paper addresses some of the issues and concerns faced by Indian companies on the issues of Corporate Governance. Due to emergence of vibrant corporate sector post 1991 liberalization, all the developments related to Corporate Governance have occurred after this period. SCOPE is playing an important regulatory role for Public Sector Enterprises (PSEs). Certain large private sectors corporate, such as TCS, are doing credible work in this area. Periodic government intervention, like enactment of Clause 49 & Company Act 2013 (which has replaced Company Act 1956), is also contributing to both private & public sector enhancing corporate governance standards.

If one has to summarize, the ultimate objective of corporate governance is to attain the highest standard of procedures and practices followed by corporate world so as to have transparency in its functioning with an ultimate aim to maximize the value of various stakeholders of the organization. The issue of understanding and application of Corporate Governance in letter and spirit is very important for any organization to be successful and competitive in the long run.

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chapter 9

Corporate Governance – Indian Financial Scenario

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ABSTRACT

The term corporate governance is buzz word which has gained a greater significance around the world. In present many companies accepted corporate reputation as an intangible asset for their organization which increases their reputation. The study addresses the scenario of corporate governance and financial practices in Indian context. Corporate governance practices show a greater impact on the financial industry in many ways. The impact will be on stakeholders and also on national and international markets. This study describes the development factors for the financial sector by integrating the corporate governance practices in it. By understanding the international standard of corporate governance the national markets has to design a framework for the implication of corporate governance in financial industry. This study provides the importance of corporate governance to enhance the performance of Indian companies. This research aims at analyzing the relationship between corporate governance and its impact on financial sector in India.

Key Words: Corporate Governance, Reputation, Intangible Asset, Reputation, Financial sector, Stake holders, International market.

INTRODUCTION

In recent years the significance of corporate governance has increased at a high degree all over the world. Due to the rapid developments in areas of integration and globalization of financial markets has a lead to codes of corporate governance. The importance of Corporate Governance was emerged in India in early 90s. The Cadbury Committee under the chairmanship of Sir Adrian Cadbury is the first committee which is suggested initial recommendation for the code of corporate governance. It was set up by the London Stock Exchange in May 1991. Later various committees recommended for acceptance of formal corporate governance code. By adding a new clause 49 Securities exchange board of India (SEBI) also emerged the code of corporate governance. SEBI made it as mandatory for its listed companies to fulfill the requirements of cluase49, effective from January 01, 2006. Investors from developed countries are demanding to follow the international best practices with an emphasis on corporate governance in Indian companies. Corporate Governance plays a prominent role in present corporate sector globally. Corporate Governance gained tremendous importance from last two decades as it influence the performance of the organization widely. Corporate Governance is a set of standards, which aims to improve the company's image, efficiency, effectiveness and social responsibilities.

Need For the Study

This paper helps to examine the status of corporate governance in India especially in the field of financial sector. Corporate governance practices improve the standards and transparency of the management which leads to the development of industry as well as nation. It provides guidelines for the development practices of financial sectors which aim at the benefit of investors, share holders and stake holders, public and nation.

Literature Review

Some relevant literatures of corporate governance have been examined in order to increase the standard of this research. The corporate governance has been receiving increasing attention from regulatory bodies and practices from early 90's in India. The concepts of Liberalization and globalization increased the importance of corporate governance especially in area of financial sector. Day to day the volume of transaction in security market are increasing. The capital markets and money market are playing a dominant role in the development of country's economy in many ways. The following literature reviews are examined to improve the standards of this research.

- A study conducted by **Ms. Neelam Bhardwaj** and **Dr. Batani Raghavendra Rao** on *"Corporate Governance Practices in India"* has examined the impact of corporate governance practices on Indian firms. This study also revealed about corporate governance practices of CNX Nifty 50 companies in India. In this research they also analyzed the annual reports of 2010-11 and 2011-12 by focusing on clause 49 of listing agreements which is laid down by SEBI. They concluded that majority of companies are following the corporate governance practices as per clause 49 given by SEBI. Only few companies (Bajaj Auto, Infosys etc.) disclosure levels are beyond the requirements of revised clause 49. Some of companies are following voluntary corporate governance guidelines 2009 and taking sustainability initiatives and taking steps for corporate social responsibility.

- Another study carried out by **Ruchi Kulkani** and **Balasundram Maniam** to analysis *"Corporate Governance – Indian Perspective"* has revealed the corporate governance and its role in development of Indian companies. It also revealed how important it for a company to follow good corporate governance practices. Finally this study concluded as India being an emerging economy needs to work more on regulating the corporate governance policies.
- A study carried out on *"Corporate Governance and Firm Performance: Evidence from India"* by **Lal C. Chugh and Ashwini Shanth Kumar**, University of Massachusetts, Boston and **Joseph W. Meador**, Northeastern University published in Journal of Finance and Accountancy which described the impact of corporate governance in U.S. and other developed countries. In this research the regression models are used to find out the relationship of a firm's financial performance and the variables of corporate governance.
- A study is conducted by **Dr. Anshul Sharma** and **Ms. Pooja Gupta** on *"Corporate Governance in India – Evaluation and Challenges"* which focused on the rating system of corporate governance containing disclosure a transparency as core attributes. It also described the competitive advantage in attracting and retaining talent and generating positive results in the national and international market with effective corporate governance. It also stressed the core values of integrity and trust of the companies to achieve good governance in its management.
- Another study conducted by **Vidhu Shekhar Jha** and **Vikas Mehra** on *"Corporate Governance Issues, Practices and Concerns in the Indian Context – A Conceptual Study"* stated that various issues are facing by Indian companies due to the vibrant corporate

governance practices which are emerged after 1991 in India. To compete with international markets the Indian companies must follow the highest standards and practices to adopt good corporate governance. This study also revealed that the companies have to maintain transparency in its functioning to maximize the value of various stake holders of the organizations. To be successful and competitive in international markets the application of corporate governance is essential for Indian companies.

- A study conducted by **Smita Jain** on *"Corporate Governance – National and International Scenario",* stated that corporate governance is being followed in spirit and does not need regular impetus through legislations. These measures should aim to improve investor confidence, display courtesy, motivate devotion towards work and organization, encourage team work with absence of self ego, and various other such traits. In this study they suggested the continuous strive towards corporate governance is essential to improve the Excellence in corporate governance by adopting the business ethics at all levels.
- A study conducted by **Megha Munjal** on *"A Thematic Framework for Corporate Governance Practices – Evidence from India"* reveals that the success of financial institutions is not a single step process. It is a continuous evaluation process which consist several challenges of corporate governance practices in India. This study stated the possibility of corporate governance practices for the economies like India and China which offer unique dimension for opportunities due to large population and tremendous growth sector which attracts more FDI's.

Research Objectives

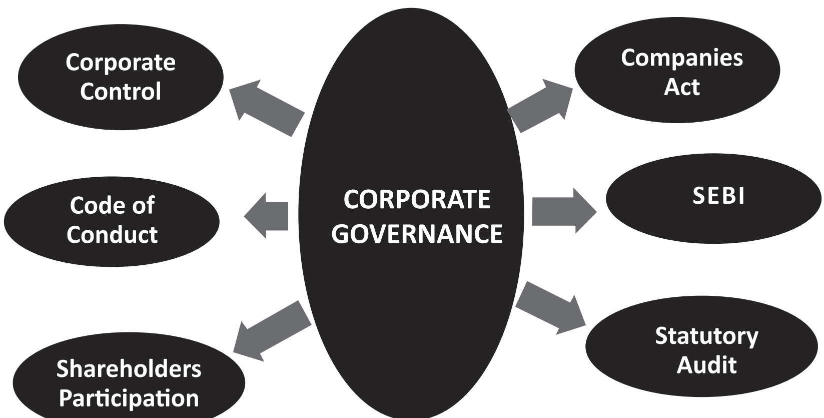
The objective of this study is to provide a significant mechanism of corporate governance for Indian companies. This study aims at analyzing best practices of good corporate governance which suits for Indian financial sector. And also to reveals the status of corporate governance practices in Indian financial sector. This study conducted to analyze relationship between corporate governance and financial performance of the companies in India.

Research Methodology

This paper is mainly based on secondary sources of information and necessary data have been collected from various published research articles, books, magazines, research journal of national and international, websites, code and guidelines issued by concerned bodies of corporate governance and financial institutions and SEBI. Indian financial market has been selected for the consideration to analyze impact of corporate governance in financial industry. And also the analysis is made to find out proper implementation methodology to reach the international standards of corporate governance by adopting different practices of it in the area of financial corporate sector.

Mechanism for Corporate Governance in Indian

As Indian economy is in a state of developing mode, to improve the standards of Indian financial sector there must be a continuous implication of corporate governance practices. The corporate governance mechanism involves various independent variables which plays a significant role in achieving good corporate governance for organization in India.



Source: CSR, Corporate Governance, Thomas Cook India, Business, Economy & Finance,

Corporate Governance in India

In India, the beginning of the concept of good corporate governance was made by the Confederation of Indian Industry (CII). Corporate governance social e includes the codes and conducts which are playing a vital role in the organization in present corporate scenario. The Cadbury committee is the first committee which identified the need of corporate governance practices in the companies. Later many committees recommended for adaptation the concept corporate governance. The following are the some of the committee which have been constitutes to give recommendation on good corporate governance viz. especially in the area of finance the corporate governance practices are essential to achieve the efficiency of the business activities and to attain the investor protection policies.

Code of Conduct

Corporate governance involves many rule, procedures and policies which helps the organizations to build strong corporate communication. These all factors act as code of conduct for corporate governance. Hence there is a need to adopt each and every independent variable of corporate governance to standardize the company's financial performance. This code of conduct must be implemented by voluntarily by the companies. The code of conduct varies from country to country. Based on global corporate governance practices every company has to frame its code of conduct which includes such as honesty, transparency, ethical values, accountability, etc.

Companies Act

The Indian Companies Act 1956 was enacted in 1956 which enables company to be formed by registration. This act is administrated by government of India through the Ministry of Corporate Affairs. It also includes the Registrar of Companies, Official Liquidators, Public Trustee, Company Law Board, Director of Inspection, etc. The company Act was amended for many times since its commencement, in which amendment of 1988, 1990, 1996, 2000 and 2011 were notable.

Security Exchange Board of India (SEBI)

Security exchange board of India was established by The Government of India on April 12, 1988. The statutory powers granted by Indian Parliament with SEBI Act 1992 in 1992. Before the establishment of SEBI, Controller of Capital Issue was the regulatory authority which acquired power from the Capital Issue (Control) Act, 1947. In April 1988 the SEBI was constituted as the regulator of capital markets in India under a resolution of Government of India.

Corporate Control

The corporate control refers to the analyzing and evaluation and exercising of corporate governance practices with a strategic controlling techniques and tools of it. It evaluation will be done by adopting different tools of statistics and other suitable measures. The exercising of corporate control is possible when there is proper implementation of corporate governance practices.

Share Holders Participation

The participation of shareholders is essential for companies to achieve high success rate in competitive market. In a joint stock company, the board members have to elect the mangers for the company. It is one of the critical responsibilities of the board because the managers who are elected by board members must be capable of handling every criticality of the company in present and future. The participation rights of share holders' in company affairs differ completely from one country to another country. It is necessary to adopt good corporate governance policies to improve the standards of shareholders' related activities such as participation rights, payment of interests, compensations, transfer pricing values and etc.

Statutory Audit

In Indian context after the year of 1991, the investment policies are created with more flexible environment for home country investment and FDI's (Foreign Direct Investment). The public are offered call for the investment proposals in various industries in large volume. The investment avenues are redesigned after the 1991 economic policy. To protect all the funds in financial markets statutory audit is must be conducted which provides accurate results for transparency and accountancy of company's transactions.

The Integration of Corporate Governance and Financial Sector

The integration of corporate governance and financial sector helps to achieve rapid growth in the economy of the nation. It also helps to strengthen the financial performance of the companies which leads to attaining corporate reputation as well as corporate social responsibility. By integration of these two factors the achievement of transparency and accountability of transactions of companies is possible. It also helps in competing with international market with more standardized performance. To increase the success rate of companies in long – run the integration of corporate governance and financial sector is essential and it also helps in achieving positive returns for financial sector in India.

Results and Discussion

From the study it is revealed that the guidelines of corporate governance which is given by Security Exchange Board of India (SEBI) are strictly followed by the Indian companies which are registered under the Indian companies Act 1956. As this study considered the annual reports of SEBI and other regulatory bodies in India the Indian economy is achieving a rapid growth in the implementation of corporate governance practices in financial sector.

The governing bodies are framed many strict policies which are essential to attain the international standards of corporate governance codes. This helps the Indian companies and financial markets to meet the requirements of global financial markets. The codes of corporate governance also help to strengthen the business management skill and efficiency of corporate communication flows. It also provides a guideline to adopt the concept of CSR (Corporate Social Responsibility) which has a greater significance around the world.

Conclusion and Implications

As the conclusion, the various factors such as investor protection, integration of corporate governance in business management in the area of finance leads to the development of countries economy. The codes prescribed by regulatory bodies must be adopted by Indian companies to gain corporate reputation in national and international financial markets.

From the finding of this study the following conclusions can be generated.

- The reputation of companies will increase and also helps to improve the competitive standards of Indian markets to succeed globally.
- The strengthening of Indian companies and growth of Indian economy can be achieved simultaneously.
- It helps the companies to improve their management efficiency and enhance the corporate communications.
- It enhances the corporate social responsibility of employee, investors, public and etc., who are directly and indirectly related with the industry.
- It provides better access to the corporate governance practices which best suits for the Indian companies.
- It helps in building strong relationship with regulatory bodies such as SEBI in India which leads to coordination and integration of business practices.

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chapter

10

Corporate Governance in Banks: An Eclectic Approach

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ABSTRACT

Corporate governance is of recent origin and has emerged in lieu of corporate failure and widespread discontentment with the working procedure of the big giants. Hence, there is a dire need to immediately examine the loopholes in accounting, audit and governance that has allowed such lapses to occur and address them with urgency. It has a dynamic concept both in terms of scope, thrust and relevance and is concerned with values, vision and visibility. The corporate governance structure specifies the rules and procedures for taking decisions with regard to corporate affairs. Moreover, it also furnishes a structure through which the company objectives are set and monitoring the performance of these objectives. As banks aid us in meeting with our financial needs, hence in this paper, an attempt has been made to probe into the genesis, need, principles of corporate governance which should be practised in banks so as to protect the interest of stakeholders and the institution.

Key Words: Governance, Banks, Basel, Ethics, Authority, Accountability and Transparency.

INTRODUCTION

The current wave modern corporate governance commenced with the Cadbury Code of Practice published by the London Stock Exchange in 1992; followed with an OECD inquiry in 1997-99, and the publication of OECD guidelines on corporate governance which have been adopted in national codes by all of the industrial countries. World Bank and Asian development bank, by many developing countries also assisted in this endeavour. The primary function of the Committee was to examine accountability of the Board of Directors to shareholders and to the society at large.

The concept of corporate governance highlights upon the idea of ensuring proper management of companies through deploying robust mechanism among the shareholders. The Cadbury Committee Report (1991) defines corporate governance as - "a system, by which corporate are directed and controlled". It primarily hinges on complete transparency, integrity and accountability of the management. There is also an increasingly greater focus on investor protection and public interest. Corporate governance is concerned with the values, vision and visibility. It is about the value orientation of the organization, ethical norms for its performance, the direction of development and social accomplishment of the organization and the visibility of its performance and practices.

Genesis of Corporate Scandals

The major scandals in the financial sector were the prime contributory factors to the recent financial meltdown as has been experienced with Enron, the Houston, Texas based energy giant and WorldCom the telecom behemoth shocked the business world both with the age and scale of unethical and illegal operations. Recently, we have witnessed the stellar fraud committed by one of the India's largest and most respected software and IT services companies "Satyam Computer Services" on January 7^{th}, 2009 They manipulated the company's income statement, cash flows and balance sheet for more than 7 years.

During the mid of the year 2008, the U.S. banking industry has been in the deepest recession since the Great Depression of the 1930s. However, the Indian banks have been insulated with these waves and have a history of around 200 years and undergone sporadic change since independence. But, Liberalisation, Privatisation, Globalisation and Information Technology have brought about a sea change in the profile of Indian banking. Initially, banking was virtually a monopoly of the public sector banks with full protection from the State, but with the advent of reforms process in the Indian banking system it has thrown them out to more liberal and free market forces. At present banks more specifically public sector ones are facing stiff competition as the interest rates are being slashed, margins are being reduced to a limited number of bankable clients which all have aggravated the situation further. During the last few years a host of formal products have flooded the market, raising consumer expectation increased the anxiety of banks to attract the attention of customers. Due to intangible nature of service products a crying need of the hour is to improve the quality of the services of the banking organizations in general and in the public sector banks in particular.

Significance of Corporate Governance in Banks

With the increasing spate of corporate scandals and a host of corporate governance norms and standards have sprouted around the globe prime one are Sarbanes Oxley legislation in the USA, the Cadbury Committee recommendations for the European companies and the OECD principles of corporate governance are perhaps the best known among these. Hence, in view of all these development there is a pressing need that banks should adhere to the following points.

- As banks play an indispensable role in our Financial System hence, special thrust should be given to this sector.
- The Reserve Bank of India, as a regulator, bears the responsibility regarding the nature of Corporate Governance in the banking sector.
- Despite the sovereignty of public sector banks, private sector banks should also give due emphasis on the moral and ethical values in their working operations.
- So as to reduce the possible fiscal burden of recapitalising the PSBs, attention towards Corporate Governance in the banking sector assumes added importance.

Embellishing Corporate Governance for Banking Organizations

Playing an important financial intermediation role of banks in economy corporate governance for banking organization assumed great importance in today's era. The Basel Committee on Banking Supervision (the Committee) published guidance in 1999 for assisting bank supervisors to adopt sound corporate governance practices in their countries taking the clue from the principles suggested by the **OECD** (Organization for Economic Cooperation). During July 2005 revised version of 1999 was made which took into account corporate governance related activities of the banking organization. The Basel Committee has issued a paper to supervisory authorities and banking organizations worldwide for ensuring the adoption and implementation and enhancement of sound corporate governance practices by banking organizations.

Ethics of Corporate Governance

Ethic 1: It is imperative that Board members should understand the risk profile of the bank and competent enough to approve the overall risk policy and risk management procedures.

Ethic 2: The board of directors should look into the vital objectives and supervise the corporate values inherent within the banking organization.

Ethic 3: It is expected that board of directors should clearly demarcate between authority and accountability of their members with the organization.

Ethic 4: The board should ensure that there is appropriate oversight by senior management in conformity with board policy.

Ethic 5: The board and senior management should effectively utilise the work conducted by the internal audit function, external auditors, and internal control functions.

Ethic 6: The board should make sure that compensation policies and practices are in accordance with the bank's corporate culture, long-term objectives and strategy, and control environment.

Ethic 7: The bank should be governed in a transparent manner.

Ethic 8: The board and top officials should be well versed with the bank's operational structure, may be in terms of its jurisdiction or structures that obstruct transparency

Imperatives for Good Governance

Taking into consideration the banking industry perspective corporate governance encapsulates the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which in turn is being affected while establishing corporate objectives. However, there are some pre-requisites for good corporate governance which are as follows

- There should a proper system clearly defining role and adequate structure of, authority and responsibility.
- Vision, principles and norms which indicate development path, should be apparent from the beginning.
- There must exist an appropriate system for guiding, monitoring, reporting and control.
- There should be alignment between the corporate activities and the behaviour having expectations that banks will operate in a safe and sound manner complying with the applicable rules and regulations.
- Safeguard the interest of depositors.

Recommendations of Birla Committee

Under the chairmanship ok Kumar Mangalam Birla the report of the Committee on Corporate Governance set up by the Securities and Exchange board of India, was the first formal and comprehensive attempt to evolve a Code of Corporate Governance, for Indian companies, as well as the state of capital markets.

- **Role of Shareholders':** It is the duty of the shareholders to assign directors and auditors with proper authority and responsibility and to hold the board accountable for the proper governance of the company .They must ask the board to furnish them with requisite information periodically, in a transparent fashion regarding the activities and progress of the company.
- **Role of Board of Directors':** The board of directors performs the pivotal role in any system of corporate governance as they are accountable to the stakeholders besides directing and controlling the management. They look after the top most goals for their proper implementation and place a check on the activities in order to furnish with reports and progress of the company in a transparent manner to the stakeholders.
- **Role of Management:** It is obligatory for the management to have adequate control systems for carrying out their operations in a smooth and transparent way keeping abreast with the feedbacks periodically.

The Basel Committee Recommendations

The Basel Committee published a paper for banking organizations in September 1999 holding the banking supervisors for the responsibility of effective corporate governance in the banking industry. A host of steps were taken for many years to remove the deficiencies of Basel I norm and Basel committee and hence came out with modified approach in June 2004. The BIS came out with the final version of the Accord titled "International Convergence of Capital Measurement and Capital Standards-A- Revised Framework" and later on termed as New Basel Accord of simply Basel ll.

Basel II was mastermind with the following objectives:

1. To promote adequate capitalization of banks.
2. To ensure better risk management and
3. To strengthen the stability of banking system.

Essentials of Accord of Basel II

- **Capital Adequacy:** It was propounded in Basel II to deploy external credit assessments for determining risks weights which in turn will facilitate the reduced risk weights for high quality corporate credits and introduce more than 100 percent risk weight for low quality exposures.
- **Risk Based Supervision:** This ensures that a bank's capital position should be consistent with overall risk profile and strategy thus encouraging early supervisory intervention. The banking process should be internally supervised and then would be subject to supervisory review and intervention by RBI.
- **Market Disclosures:** The practice of market disclosure will boost the high disclosure standards and intensify the role of market participants in stimulating banks to retain with adequate capital.

Suggestions

To overcome the challenges, banks are required to emphasize on certain factors, which will increase their transparency accelerating higher foreign investment.

- **Self- Appraisal System:** Good governance can be understood like a trusteeship, therefore directors should introspect themselves. Banks should have a clear idea regarding the needs of the customers and accordingly should modulate policies for the provision of such services to their clients
- **The Board's Committees:** There should be a Committee for assisting the working operation of the Board with clearly defined authority and responsibility.
- **Transparency:** The primary edifice of corporate governance is transparency in the operations hence; public disclosure is required in the Board Structure, Senior Management, Basic organizational structure and incentive structure of the bank.

CONCLUSION

With the onset of LPG era, corporate governance has assumed a vital role. In order to survive and succeed in this fierce competition, the bank should continue its endeavor to enhance its shareholders' value by protecting their interest by ensuring performance at all levels and maximizing returns with minimal use of resources in its pursuit of excellence in corporate life. The bank should comply with not only the statutory requirements, but also voluntarily formulate and adhere to a set of strong corporate governance practices.

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chapter

11

Corporate Governance in Nepalese Banking

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ABSTRACT

Corporate governance framework helps to integrate the local financial system with the global financial market in the liberalized economic environment. The corporate governance philosophy of bank has to be based on the pursuit of sound business ethics and strong professionalism that aligns the society. Strengthening of public confidence in banks is a vital requirement. The corporate governance philosophy of banks has to be based on pursuit of sound business ethics and strong professionalism that aligns the interests of all stakeholders and the society. With elements of good corporate governance, sound investment policy, appropriate internal control systems, better credit risk management, focus on newly-emerging business, commitment to better customer service, adequate automation and proactive policies, banks will definitely be able to grapple with these challenges and convert them into opportunities. The Organisation for Economic Cooperation and Development (OECD) was one of the earliest non-governmental organisations to work on and spell out the code of corporate governance for the overall benefit of the institutions.

Keywords: Corporate Governance, Nepal, OECD, Basel, Banking.

INTRODUCTION

The 1997-1998 economic crises in the Asian countries highlighted the importance of corporate governance. In developing countries such as Nepal, good governance of banks is crucial for the survival of its economy. Corporate governance refers to the management and control of the company. We can say it as a mechanism that tries to reduce or eliminate the problems between the principal-agent. Corporate governance mechanism is implemented to assist in aligning the functions of managers with shareholders. Banking a service is not remaining within domestic level rather has across the transnationalboundary gets into globalise pattern with economic globalization. Banking services also has changed the banking facial outlook drastically. Banks are the dominant group of financial institutions within a financial system and therefore play an important role in encouraging savings, investment and economic performance of a country. The functions of modern bank include:

- Financial intermediaries attract savings and investments from surplus units i.e. depositors in the economy, substitute their credit and provide funds to deficit units i.e. borrowers.
- Use funds through provision of loans to customers and investments in securities.
- Source funds through active liability management.
- Provides a range of other and every financial services.

Sound performance on such responsibilities depends upon appropriate discipline, corporate cultures and economic and corporate governance principles. Good corporate governance contributes sustainable economic development by enhancing performance of banks and increasing their access to outride capital. Corporate governance comprises the institutions that govern the people who manage corporations and all others who invest resources and all others who invest resources thereon. Corporate governance concerns the relationships among the Management, Board of Directors, controlling Shareholders, Minority shareholders and other stakeholders. Corporate governance refers to the structures and processes for the direction and control of banks. Corporate governance in banking sector is considered by the Basle committee on Banking Supervision of the Bank for International Settlements (BIS) to be a basic element in the stability of financial markets. The regulatory framework in Nepal has involved laws, rules and directives together assimilate the core elements of corporate governance for Bank and Financial Institutions (BFIs).

OVERVIEW OF LITERATURE

The implementation of the governance principles should be proportionate to the size complexity, structure, economic significance, and risk profile of the bank and the group to which it belongs **(Basel. 2006)**. Corporate governance reforms are of great significance for developing countries like Nepal, to gain a sustained effort to attract Foreign Direct Investment and Foreign Portfolio Management, and to mobilize greater saving through capital market **Sapkota (2008).**

Adhikari, (2008), claimed that corporate governance is a system of leadership and control of the company and its foreseeable sustainability. **Alexander (2004)**, reported that best corporate governance practices will enable banks to get easy access in the capital market and decrease the cost of capital and protect the rights of minority shareholders including foreign shareholders. The high concentration of corporate ownership structure and dominance of family business in corporate affairs have become major constraints in exercising good corporate governance in Nepalese corporate sector, **Gorkhali (2010).**

Erkens, Hung and Matos (2012) investigate the impact of corporate governance on financial firms' performance during the 2007-2008 financial crises. This study examined the relation between firm performance and corporate governance by regression stock returns during the crisis as buy-and-hold returns from January 2007 to September 2008 on measures of corporate governance and control variables. The study found that firms with more independent boards and higher institutional ownership posted worse stock returns during the crisis period. Corporate governance aims to minimize the chances of corruption, malpractices, financial frauds and misconduct of management **Ubha (2007).**

A study done by **Kumar & Upadhyaya (2011)** attempts to develop a corporate governance index for Commercial Banks of Nepal by taking the OECD code of corporate governance benchmark. There have been some irregularities in the governance of Nepal Development Bank Ltd and a few other prime commercial banks in Nepal. The authors therefore attempt to construct an Index in order to assist the promoters, common shareholders, creditors, investors and other stakeholders of the banks in Nepal.

IMPORTANCE OF CORPORATE GOVERNANCE IN BANKING

An objective of corporate governance is to establish strategic objective and set of corporate values that are communicated throughout the banking organisation. Poor corporate governance may contribute to bank failures, which can pose significant public costs and consequences due to their potential impact on any applicable deposit insurance systems and the possibility of broader macroeconomic implications such as contagion risk and impact on payment systems.

Research Objectives

According to the above background, the one and only objectives of the study is to examine the legal and regulatory provisions in relation to corporate governance framework in banking institutions with reference to OECD code of governance principles of corporate governance and Basel Committee corporate governance framework especially in the context of Nepalese commercial banks and their application status.

Research Methodology

Current study is descriptive in nature. This helps to examine the legal and regulatory provisions in relation to corporate governance framework in banking institutions. The data is collected is secondary in nature collected from the official websites Nepal Rastra Bank Directives, OECD, newspapers, journals, edited books, etc.

Significance of Corporate Governance in Banking Sector

Corporate governance is very crucial and essential element for the banking system because bank and financial institutions depends on the Other People's Money (OPM). Corporate governance also enhances performance of the corporation by motivating manager to maximize returns on investment, raising operational efficiencies and ensuring long-term productive growth. Following key points may be taken in considerations for the significance of corporate governance of the banking sector:

- Good corporate governance is required in banks to achieve good working balance.
- Banking system stability is important for economic growth.
- Good corporate governance practices can strongly contribute to financial market development and financial stability.
- Nepal implemented the Basel II from July 2008 in banking sector and good corporate governance forms an important part of Basel II.

Existing Laws and Regulation

Nepalese banking system is gearing up for different business and economic environment. There have been several efforts towards building regulatory mechanism for corporate governance by Nepal Government and Central Bank. Among those several efforts; following are the acts and regulations, which provide necessary guidelines to maintain corporate governance in the bank and financial institutions:

- Banks and Financial Institutions Act 2063 (BAFIA)
- Directive 6 issued by the NRB
- Companies Act 2063

OECD Principles of Corporate Governance in Banking Sector

Corporate governance is the set of relationships between a company's management, its board, shareholders and the other stakeholders (OECD, 2004). Good corporate governance should facilitate effective monitoring and provide proper incentives for the board and its shareholders (OECD, 2004). The Board of Standard Chartered Bank Nepal Limited is responsible for the overall management of the Company and for ensuring that proper corporate governance standards are maintained. The Board is also responsible and accountable to shareholders. Code of Corporate Governance of OECD's principles is generally taken as basis to frame the governance system all over the world, which are briefly discussed here under:

(1) **The Rights of Shareholders:** The rights of shareholders include a set of rights secure ownership of their shares, the right to full disclosure of information's, voting rights, participation in decisions on sale or modification of corporate assets, mergers and issue of new shares.

(2) **Equitable Treatment of Shareholders:** The protection of minority shareholders rights, by setting up systems that keep insiders, including managers and directors, from taking undue advantage of their roles.

(3) **Stakeholders and Corporate Governance:** OECD pointed out that besides the Shareholders there are numerous stakeholders concerned to the company so it has laid down several provisions for the protection of all the stakeholders.

(4) **Disclosure and Transparency:** The areas of Board Structure, Directors remuneration, audit committee and role, key financial indicators to be communicated to the shareholders and the stakeholders as their rights concerned.

(5) **The Responsibilities of the Board:** The OECD principles set the way for directors responsibilities and accountabilities i.e. corporate strategy, risk, executive compensation and performance as well as accounting and reporting systems, concerned to their rights and duties.

Basel Committee Corporate Governance

The Basel Committee's document, "Principles for Enhancing Corporate Governance" set out best practice for banking organizations. Implementation of provisions of Basel II in banking sector forms an important part of good corporate governance. The key areas of the principles from the banking and financial industry perspective are highlighted hereunder.

1. **Set corporate strategies and values to be communicated in the Banking industry:** The Board should set corporate strategies that will direct the ongoing activities of the bank in which they operate and includes approving and overseeing the implementation of the bank's risk strategy. The Board should also set the vision, mission, corporate objectives and code of conduct for the board members, senior management and staffs.
2. **Define the responsibility and accountability of the Board:** Corporate governance framework should ensure a clear definition of the authority and responsibilities of the Board members and senior management. Senior management is responsible towards the board and board towards the company and shareholders.
3. **Ensure the Board members are qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the bank and are not undue influence from management or outside concerns:** The board of directors is responsible for the operations and financial soundness of the Bank. Board members should have adequate knowledge and experience relevant to each of the financial activities of the bank and able to effective oversight of the activities. The Board, may oversight the activities through the various committees that normally have in the Banks but not limited to (i) Audit Committee (ii) Risk Management Committee (iii) Compensation Committee (iv) Nomination Committee.
4. **The Board and senior management should effectively utilize the work conducted by the internal audit function, external auditors, and internal control functions:** The auditors' role is importance for proper maintenance of the corporate governance system. The effectiveness of the board and senior management can be enhanced by the importance of the audit process, independency of auditors, addressing the findings of auditors in time and evaluate the effectiveness of internal controls system.

5. **The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives, strategy and control environment:** The board should approve the compensation of senior management, other key personnel, and ensure that such compensation is consistent with the bank's culture, objectives and strategy. This will help to ensure that senior management and other key personnel will be encouraged to act in the best interests of the bank.
6. **The board and senior management should understand the bank's operational structures, including where the bank operates in jurisdictions, or through structures, that impede transparency know-your structure:** Transparency and governance system are relatively important two elements in corporate governance. Normally the disclosure practices is desirable in the areas such as accounting rules, management performance and discussion, risk management, related parties transactions and other relevant information including legal and regulatory requirements.

Application Status of OECD and Basel Governance Framework

(i) Nepalese banking industry still to move towards setting of designed conduct, core values and overall banking strategies. However, due to the relatively small size of the assets of the banks, it is observed from published annual reports that very few banks are able to implement such strategies.

(ii) There must be a clear definition of the authority and responsibilities of the Board members and senior management. Senior management is responsible to the board for the performance of the bank. The unclear authority and responsibility makes difficult to work and the role and responsibilities should be defined in order to implement strategic objective in smooth running of day-to-day banking business.

(iii) This is an arbitrary issue about the qualification of Board members in Nepalese banking industry. Even though, certain qualification has been prescribed in BAFIA 2006, which may not adequate to run the banking business. Regarding ownership structure of most of the Nepalese Banks and representation in the Board, there must be adequate number of Non-executive and independent board members having sound banking knowledge to operate the banking business.

(iv) Board of directors is responsible for the operations and financial soundness of the Bank. The board must get the relevant information on timely basis to evaluate the performance of the management. Board, may oversight the activities through various committees that normally have in the Banking Industries. However, based on practice and regulatory requirement only Risk management committee and Audit committee are functioning to assist the Board to oversight the management activities in banking industry in Nepal.

(v) The primary responsibility of the maintenance of internal control system rest with the bank management, however independent auditors are also the important player in the corporate governance system. The internal control systems are evaluated by the internal auditors and their functions are oversight by external auditors too. However, based on practice there is no system of separate reporting about the evaluation and effectiveness of the internal control system of the banks.

(vi) The issue of the amount of compensation and the bonus has always been of controversy and importance among members of the Board and senior management. The importance of this matter arises from the impact of compensation granting method on the conflict of interests between the company and the managers, the future performance and consequently profit making of the company. Therefore, it is crucial to consider the long-term goals and strategy of the company for granting the compensation (Mashayekhi et.al, 2014).

(vii) The Nepalese banking industry, in recent years has practiced to disclose the material matters including regulatory requirements in line with the recommendations of the Basel Committee. Most of the banks have disclosed very few items of accounting standards compliance notes observed in their annual reports (Adhikari, 2013). However, commercial banks in Nepal are now required to disclose profitability ratios like return on assets, earning per share which is important ratios to judge the performance and strengthening corporate governance of Banks (Adhikari, 2013).

CONCLUSIONS

The conclusion is that sound corporate governance would lead to effective and more meaningful supervision and could contribute to a collaborative working relationship between bank management and bank supervisors. Banks need to ensure good corporate governance in order to achieve excellence, transparency and for maximization shareholders value and wealth. Corporate governance frameworks in Nepalese banks are designed on the premise of the provisions of Bank and Financial institutions Act 2006 and NRB Directive. Despite of numbers of improvement of governance practices seen in Nepalese Banks, to strengthen the governance system, the Board should move forward to set the vision, mission, core values, strategies and well-designed organizational structure. The reforms should be made in laws and regulations in order to achieve more stringent governance system including properly defining authority and responsibilities of BOD, qualification of directors, board governance system, and oversight function of independent director, transparent reporting and disclosures practices in an ethical manner.

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chapter

12

Conventional and Islamic Practices of Corporate Governance – A Comparative Study

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ABSTRACT

Islam presents distinctive values and special features of corporate governance with an aim to uphold and maintain the principles of social justice not only to the shareholders of the firm but to all stakeholders. Islamic corporate governance brings to the world of corporate affairs a balanced and justified framework of governing company affairs. The purpose of this paper is to identify, examine and analyse the differences between the conventional practices of corporate governance across the world and Islamic corporate governance. It is a descriptive study with fresh thinking and deals with the contemporary issue of corporate governance. The practices that are followed across the world are compared with the Islamic model of corporate governance. It is found that across the world many companies and countries are adopting Islamic way of corporate governance on account of its transparency and simplicity. There is not much literature and research on Islamic perspective of corporate governance which is important for companies following Islamic principles of finance and management of company affairs in relation to its stakeholders. This paper also documents various issues in implementing the corporate governance practices (both Islamic and others).

Key Words: Shari'ah, Shura, Tawhid, Stakeholder, Transparency, Corporate Governance.

INTRODUCTION

History has evidenced several cases wherein either the owners, or the auditors and the accountants of the companies have taken advantage of the loopholes of the reporting and governance practices followed in their organisation. Some of these include, for example, excessive speculation by Nick Leeson due to lack of effective internal control measures, dishonesty of directors in Enron case that lead to creative accounting and ever obliging external auditors who collapsed along with Enron. The Ihlas Finance House (IFH) of Turkey collapsed in 2001 mainly due to liquidity crisis and a loss of confidence in the banking sector. Lack of good corporate governance, weak internal and external checks and poor risk management are factors that led to the fall of IFH. The size of exposure suggests a weak due-diligence process in the verification of Shari'ah compliance and poor risk management by investing heavily in one entity. This study is a descriptive one with fresh thinking and deals with the contemporary issue of corporate governance. The practices that are followed across the world are compared with the Islamic model of corporate governance. It is found that across the world many companies and countries are adopting Islamic way of corporate governance on account of its transparency and simplicity. There is not much literature and research on Islamic perspective of corporate governance which is important for companies following Islamic principles of finance and management of company affairs in relation to its stakeholders. This paper documents various issues in implementing the corporate governance practices (both Islamic and others). The paper is divided into four sections- section (i) Highlights the issues in corporate governance, section (ii) Concentrates on different models of corporate governance, section (iii) Documents corporate governance from Islamic perspective and section (iv) Concentrates on distinguishing Islamic model from the others models of corporate governance.

REVIEW OF LITERATURE

There are a few studies done on Islamic financial system and Islamic corporate governance. The following section reveals a review of literature on the above mentioned topic.

- Amr Mohamed El Tiby Ahmed, Wafik Grais (2014) in their book described Islamic Finance and commented on how it helps in economic development and also explained it in terms of Risk, Regulation, and Corporate Governance. Their study covered the history and basics of Islamic finance, and provides insight into current conditions and future landscape and explored regulatory framework, including opportunities and challenges for the industry's development and mainstream. The book also presented an approach to developing a systemic Shari'a governance framework to govern operations in the Islamic finance industry.

- Chapra, M. U (2011) in his article argued that the primary cause of the current subprime mortgage crisis in the United States is the absence of adequate market discipline in the financial system. This tends to promote excessive lending, high leverage, speculation, and an unsustainable rise in asset prices. Unwinding later on gives rise to a vicious cycle of selling that feeds on itself and leads to a steep decline in asset prices followed by financial crisis and economic slowdown. The solution lies in introducing risk sharing along with the availability of credit for primarily the purchase of real goods and services that Islamic finance aims at introducing. This can help inject greater discipline into the system and, thereby, substantially reduce financial instability. Since the introduction of greater discipline into the financial system may deprive the subprime borrowers of credit, the article also discusses the need for finding ways of satisfying their genuine credit needs.
- Elasrag, Hussein (2014) in his paper highlights the importance of studying corporate governance for institutions offering Islamic financial services. It describes governance in Islamic institutions and how there are many issues under the investigation process, especially issues related to the shari'a Supervisory board and its functionality. This paper discussed, and created greater awareness of, some of the crucial issues related to corporate governance in Islamic financial institutions. A second, but in fact more important objective of the paper was to discuss certain essential guidelines to improve corporate governance in these institutions and thereby enable them to not only maintain their momentum of growth and international acceptance but also safeguard the interests of all stakeholders. The paper gave particular attention to the mechanisms for corporate governance, including the board of directors, senior management, shareholders, depositors, and regulatory and supervisory authorities. It also focused on the effective management of risks and, in particular, on creating a supporting environment through moral uplift, social, legal and institutional checks, greater transparency, internal controls,

and Shari'a as well as external audit. The paper indicated briefly the shared institutions that are needed for effective corporate governance.

- Racha Ghayad, (2008) in her paper studied the operation of Islamic banks and the elements which determine their performance. In order to ensure the respect of Shari'a, religious committee of monitoring exists within the Islamic bank to take care of the conformity of the activities and banking products with the Shari'a. This paper supposed that corporate governance of Islamic banks imposes an important constraint on Islamic banks operations. Furthermore, the directors of the Islamic banks are subjected to the governorship exerted by the board of directors and the Shari'a board. The findings of this paper are that the performance of an Islamic bank – as a company based on principles of Islam – is affected not only by the internal variables of quantitative nature (for example financial ratios) but also by the internal qualitative variables like the managerial variables.
- Zulkifli Hasan (2009) in his paper defines that Islamic corporate governance model in Islam has its own unique features and presents distinctive characteristics in comparison with the western concept of the Anglo-Saxon and the European models. It combines the element of Tawhid, Shura, Shari'ah rules and maintains the private goal without ignoring the duty of social welfare. This paper examined the basic elements of Islamic corporate governance with the Western counterpart in the aspects of conceptual definition, episteme, corporate objective, nature of management and corporate structure.

In the particular case of financial reporting, proponents of financial reporting from an Islamic perspective cite Quranic verses such as the following as the basis for subjecting it to Islamic religious considerations: "O ye who believe! When ye deal with each other in transactions involving future obligations in a fixed period of time, reduce them to writing; let a scribe write down faithfully as between the parties; let not the scribe refuse to write; as Allah has taught him, so let him write ..." With the conviction that the recording of financial transactions is a divine commandment, the field of study known as 'Islamic accounting' was created. This is in line with the saying of Prophet: *"A Muslim is the one from whose hand others are safe"* (Sahih Bukhari, Volume 1, Book 2, and Number 10).

OBJECTIVES OF THE STUDY

The broad objective of the study is to make a comparative study of Islamic and conventional corporate governance practices. This broad objective is subdivided into the following sub-objectives:

- To examine the issues in Corporate Governance in general and specific to IFIs
- To identify and examine the conventional models of Corporate Governance
- To examine the Islamic models of Corporate Governance
- To compare the conventional models with Islamic models

Objective 1: To examine the issues in Corporate Governance in general and specific to IFIs.

ISSUES IN CORPORATE GOVERNANCE (GIVEN BY MCDONOUGH)

The concept of corporate governance does not differ much from the Islamic perspective as the main objective is to protect all stakeholders' interest. But in doing so, there are certain issues that need consideration. These are:

- **Unqualified Independent Directors:** Companies find it difficult to find independent directors who are highly qualified and also knowledgeable in the business of the company. When it comes to Banking corporations, this is one of the first rules published by the Basel Committee on Banking Supervision, for effective corporate governance that they have qualified independent directors.
- **Unwarranted Executive Compensation:** It becomes difficult in times of financial crisis for companies to pay excessive executive remuneration/honorarium wherein such payments are not morally sound. There must be transparency in financing and payouts as these would lead to market discipline.
- **Inaccuracy in Accounting:** Preparation of accounts must be as per the standards and care should be taken that companies disclose all liabilities (including their hidden liabilities). Complex financial arrangements, such as those funded offshore or through special purpose entities, should not be used to "hide liabilities" which happened in the case of Enron.
- **Non-disclosure of Information:** Financial statements are made as per the disclosure practices followed by the company. The need for mandatory disclosures will certainly continue, but firms

should also be encouraged—and in some cases required--to make otherwise non-mandatory disclosures if accounting statements are misleading or incomplete.

ISSUES OF CORPORATE GOVERNANCE SPECIFIC TO ISLAMIC FINANCIAL INSTITUTIONS (IFIS)

- **Shari'ah Compliance**

Following Shari'ah is the most important factor in IFIs. Non-compliance to Shari'ah would result in reputation risk to the Islamic finance industry. In the case of the IFIs who invested with BCCI, the Shari'ah Supervisory Board (SSB) of the IFIs did not perform their job as BCCI was not investing in Shari'ah compliant investments.

- **Shari'ah Supervisory Board and Corporate Governance Issues**

The issues of Shari'ah supervisory boards are related to the functions that Shari'ah Board implements. Independence, confidentiality, competence, consistency and disclosures are of the important issues related to the functions (Pellegrini, 2006). Independence issue relates to the appointment of Shari'ah Board members. Confidence's issue rises from conducing more than one supervisory task in many banks where information can be known by other Shari'ah board member. Competence issue is related to the expertise Shari'ah board member possess, they would have to hold finance and Islamic law background as very few scholars are well-versed in both disciplines. Consistency of judgment over the time as that would help in gaining customer confidence. Finally, disclosure of information about the Shari'ah board functions might advance the process of information.

- **Independence:** Generally, members of an SSB are appointed by the shareholders of the institution, represented by the board of directors to which they report. As such, they are employed by the institution, and their remuneration is proposed by the management and approved by the board. The nature of their relationship with company is such that they are remunerated by the company and in turn they need to report on the nature of operations of the company.
- **Competence:** Shari'ah scholars have to be familiar with Islamic law and also need to possess financial expertise, this serves as a limitation as it is difficult to find such competent scholars.
- **Confidentiality:** The issue of confidentiality arises from the practice of Shari'ah scholars often sitting on the SSBs of several

IIFS, thereby gaining access to proprietary information of possibly competing institutions.

- **Consistency:** There is an issue of consistency of judgment across IFIs, over time or across jurisdictions. Conflicting opinions on the admissibility of specific financial instruments or transactions would hurt business confidence and market efficiency.
- **Disclosure:** Disclosure of all information relating to Shari'ah would strengthen the credibility of the company and promote market discipline.

Objective 2: To identify and examine the conventional models of Corporate Governance

Models of Corporate Governance: Some of the popular models of corporate governance that are followed by companies across the world are as follows:

- **The Anglo-Saxon Model**

This model is based on the corporate concept of fiduciary relationship between the shareholders and the managers motivated by profit-oriented behavior. The main concentration of Anglo-Saxon corporate governance is the shareholder interest where the principle is applied by given the right to each shareholder to vote pursuant to that the law found to be protecting the shareholder against the management where a shareholder can be found misusing the company money which might affect the shareholder wealth. The composition of the Anglo-Saxon corporate governance system is one board of directors constituting of executives and non-executives. The executive directors are managers of the corporations; whereas the non-executive directors are representing the shareholders to monitor the manager in their day to day business. Both executive and non-executives directors' members are appointed and dismissed by general assembly of shareholders. (Denis & McConnell, 2003).

- **Latin Corporate Governance System**

The Latin corporate governance system is considered more flexible compared with previous Systems. In a context of board of directors, Latin corporations have an option to select either one board as Anglo-Saxon system or two boards as in Germanic System, shareholders have more influence in the Latin system i.e. in French legislation, shareholders can remove a director, which overrule on a share one vote system. (Aguilera & Ermoli, 2005).

- **Germanic Corporate Governance System**

The Germanic corporate governance system deals with the firm as an autonomous economic entity which may benefit to shareholders and stakeholders in the firm. Countries which implement this system use two board systems consisting of a supervisory board and managing board. Supervisory board main duties are to appoint the managing dismiss managing board and to evaluate management performance. Germanic corporate governance system considers the bank as the main source of finance. Therefore, the bank has a significant voting right in shareholder's assembly and also represents shareholders' interest in a supervisory board (Odenius, 2008).

- **Japanese Corporate Governance System**

The board of directors in Japanese system comprises a board of directors, an office of representative directors and an office of auditors. The president is the rarely the chairman of the board. Banks have high influence on the decision making of the management in the Japanese system (Allen; & Zhao, 2007)

- **European Model /Stakeholders Model**

In this system, companies raise most of their external finance from banks that have close, long term relationships with their corporate customers. The European model is focused on a relationship-based model that emphasizes the maximization of the interests of a broader group of shareholders (Ismail Adams, 2003:4). The stakeholders' model of corporate governance is practiced by majority of the European countries such as German, France, Italy, Spain and Greece where many large firms are part of social and economic structure. Banks are major shareholders in the company, two-tier structure of supervision i.e. management directors and supervisory board of outside directors. Some authors use different terminology on the European model of corporate governance such as stakeholder model, stakeholder theory, stakeholder management and stakeholder society.

Objective 3: To examine the Islamic models of Corporate Governance

In the Islamic context, the interest of stakeholders is beyond the financial return or profit maximization; it covers the element of ethic, Shari'ah or Islamic law and principle of Tawhid i.e. the oneness of Allah. As Allah knows everything and all mankind is answerable to Him, the principle of Tawhid shall be the foundation of the corporate governance model in Islam.

There are four principles and instruments governing Islamic governance i.e.

- Extension of Tawhid unity of knowledge via interactive, integrative and evolutionary process to the interacting environing factors,
- The principle of justice,

- The principle of productive engagement of resources in society and
- The principle of economic activities and recursive intention amongst the above stages.

In Malaysia, the accounting framework is based on IFRS and is adopted locally as the MASB. Rather than issuing specific Islamic standards, the MASB provides technical releases to explain how best to accommodate the Islamic transactions. IFRS framework does not cover all needs of stakeholders of Islamic finance, for example, Zakat. Asian Oceanian Standards Setters Group has set a Working Group to liaise with the IASB on the application of IFRS to Islamic finance and there is also Bahrain based AAOIFI.

- **Tawhid and Shura Based Model**

There are four principles governing Islamic governance which are i.e. extension the principle of justice, the principle of productive engagement of resources in society and the principle of economic activities and recursive intention amongst the above stages. All of these principles are the main premises of the Islamic corporate governance where the Shari'ah rules embedded in al-Quran and al-Sunnah make the Islamic corporation market driven and at the same time uphold the principle of social justice.

- **Stakeholders Model**

The stakeholders' model for Islamic corporate governance is preoccupied by two fundamental concepts of Shari'ah principles which are property rights and contractual frameworks. The governance of any corporation in Islam is ruled by Shari'ah where all the stakeholders including the shareholders, the management, other stakeholders such as the employees, the suppliers, the depositors and the community.

- **Shari'ah Board Monitoring**

The Shari'ah supervisory board plays a very important role in ensuring good Shari'ah governance. The role of the SSB is to include advising board of directors on Shari'ah matters to ensure that the operations comply with Shari'ah principles at all time, endorsing and validating relevant documentations pertaining to the products and services, as well as the internal policies and manuals and marketing advertisements (Zulkifli Hasan, 2005). The interest of stakeholders may extend beyond the financial interest to ethical, religious or other values when requiring good corporate governance. In Islamic banks shareholders and Islamic scholars requires the operation of services offered to be under Shari'ah law otherwise it will be subject to process in no permission. Therefore, corporate governance through Shari'ah operation is essential.

Objective 4: To compare the conventional models with Islamic models

Aspects	Anglo-Saxon Model	European Model	Shari'ah Model
Episteme	Rationalism and Rationality	Rationalism and Rationality.	Tawhid
Rights and Interest	To protect the interest and rights of the shareholders.	The right of community in relation of the corporation.	To protect the interest and rights of all stakeholders but subject to the rules of Shari'ah
Corporate Goal	Shareholders controlling managers for purpose of shareholders profit.	Society controlling corporation for purpose of social welfare.	Shari'ah objective or Maqasid Shari'ah
Nature of Management	Management dominated	Controlling shareholder dominated.	Concept of vicegerency, Shura and Interactive, Integrated and Evolutionary Process
Management Boards	One-tier board	Two-tier boards: executive and supervisory responsibility separate.	Shari'ah board as the ultimate governance.
Capital Related and Ownership structure	Widely dispersed ownership; dividends prioritized	Banks and other corporations are major shareholders; dividends less prioritized.	Shareholders and depositors or investment account holders.

Source: Zulkifli Hasan, Annual London Conference on Money, Economy and Management 2008.

CONCLUSION

There is a greater need to increase awareness among entrepreneurs about the various aspects of corporate governance. Special Quality of audit, which is at the root of effective corporate governance; Role of Board of Directors as well as accountability of the CEOs and CFOs; Quality and effectiveness of the legal, administrative and regulatory framework; etc. are some of the areas that need special mention for implementation of effective corporate governance practices. All of these are rooted in Islamic models of corporate governance, which are documented in this paper.

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chapter

13

Strengthening of Corporate Governance: A Case Study of Vardhman Textiles Ltd.

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ABSTRACT

Corporate governance plays a vital role in the effective functioning of companies. A sound corporate governance system provides effective protection for all stakeholders. Moreover, good corporate governance ensures an environment that is conducive for the efficient and sustainable growth of the corporate sector. With the view to strengthen the corporate governance, and to raise the standard of corporate governance in India, The Securities and Exchange Board of India (SEBI), vide its circular dated April 17 2014, issued certain amendments to Clause 49 of the listing agreement. The Companies Act, 2013 was enacted on August 30, 2013 which provides for a major overhaul in the corporate governance norms for all companies. The new norms and requirements under revised clause 49 are based upon principle based framework and are notably different from current requirements. The present paper is an attempt to make the comparative analysis of the existing Clause 49 of the listing agreement and revised Clause 49 of the listing agreement issued. Also an effort is made to draw a report with respect to impact of revised Clause 49 of the listing agreement on the Vardhman Textiles Limited.

Key Words: Clause 49, Companies Act 2013, Corporate Governance, Listing Agreement, Revised Clause 49, Stakeholders.

INTRODUCTION

Governance implies a degree of control to be exercised by key stakeholders' representatives for the furtherance of corporate growth and protection of stakeholders' interest (Aquinas, 2009). Corporate governance refers to the rules, processes, or laws by which businesses are operated, regulated and controlled. Corporate governance is defined as "The system by which companies are directed and controlled" (Cadbury Committee, 1992). The OECD Principles of Corporate Governance states "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

Corporate governance presents the guiding principles as to how the company can be directed or controlled so that it can achieve its goals and objectives. It adds to the value of the company and moreover it is advantageous for stakeholders. With the view *to strengthen the corporate governance*, SEBI constituted a committee on Corporate Governance under the chairmanship of Shri Kumar Mangalam Birla. This committee in its report observed that, "the strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure." Based on the recommendations of the committee, the SEBI had specified principles of corporate governance and introduced a new clause 49 in the listing agreement of the stock exchanges in the year 2000. These principles of corporate governance were made applicable in a phased manner and all the listed companies with the paid up capital of Rs 3 crores and above or net worth of Rs 25 crores or more at any time in the history of the company, were covered as on March, 2003.

SEBI, as part of its efforts to continuously strengthen and improve the standards of corporate governance constituted another committee on corporate governance under the chairmanship of Shri N. R. Narayana Murthy to review the performance of corporate governance in country. The committee in its report observed that "the effectiveness of a system of corporate governance cannot be legislated by law, nor can any system of corporate governance be static. In a dynamic environment, system of corporate governance needs to be continually evolved." Based on the recommendations of the committee and to promote and raise the standards of corporate governance, SEBI revised clauses 49 of the listing agreement vide its circular dated August 26, 2003, the implementation of which was deferred later. The SEBI on October 29, 2004 again revised the Clause 49 of the listing agreement.

However, again in order to improve and raise the standard of corporate governance in India, The Securities and Exchange Board of India (SEBI), vide its circular dated April 17 2014, issued certain amendments to Clause 49 of the listing agreement. The Companies Act, 2013 was enacted on August 30, 2013 which provides for a major overhaul in the corporate governance norms for all companies. The revised norms would be effective from October 1, 2014 and are in line with Companies Act, 2013. The revised clause 49 is divided into 11 major sub clauses containing the provisions of compliances under Corporate Governance norms. Moreover, enhanced disclosures are required to be made by the Companies in their annual report.

Basically there were three main objectives for the amendments in Clause 49:

- To align the provisions of the listing agreement with the provisions of newly enacted Companies Act, 2013.
- To provide additional requirements to strengthen the corporate governance framework for the listed companies in India.
- To make the corporate governance framework more effective.

Revised clause 49 seeks to raise governance standards by bringing in greater transparency and reporting requirements. To implement corporate governance framework more effectively, the SEBI set up monitoring cell of the stock exchanges. These monitoring cells shall monitor and assess the compliance with the provisions of the revised clause 49 by all listed companies. The monitoring cell shall ascertain the adequacy and accuracy of disclosures in the quarterly compliance reports received from the companies and shall submit a consolidated quarterly compliance report to SEBI within 60 days from the end of each quarter. This shows that the SEBI requirements have been made more rigorous. So, the companies will need to assess the impact of these requirements and implement changes.

The current paper is focused on the analysis of the existing Clause 49 of the listing agreement and revised clause 49 of the listing agreement issued on April17, 2014. The changes in Revised Clause 49 from the current requirements are studied. The revised clause 49 is applicable to all listed companies with effect from October 1, 2014 except unless specifically stated. Also an attempt is made to draw a report with respect to impact of Revised Clause 49 of the listing agreement on the Vardhman Textiles Limited.

APPLICABILITY OF CLAUSE 49

- The revised Clause 49 is applicable to all listed companies with effect from October 1, 2014.
- The provisions of Clause 49 (VI) (C) (Risk Management) are applicable to top 100 listed companies by market capitalization as at the end of the immediate previous financial year.
- The provisions of Clause 49 (VII) (Related Party Transactions) are applicable to all prospective transactions. *All existing material related party contracts or arrangements as on the date of this circular which are likely to continue beyond March 31, 2015 shall be placed for approval of the shareholders in the first General Meeting subsequent to October 01, 2014. However, a company may choose to get such contracts approved by the shareholders even before October 01, 2014.*
- For listed entities which are not companies, but are body corporate and/or are subject to regulations under any other statutes (e.g. banks, financial institutions, insurance companies etc.), the Clause 49 shall apply only to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant regulatory authorities.
- The Revised Clause 49 is not applicable to Mutual Funds.
- In order to implement the corporate governance effectively, SEBI issued a Circular No. *CIR/CFD/POLICYCELL/13/2013* dated November 18, 2013, requiring the monitoring cell of the Stock Exchanges to monitor the compliance with the provisions of the revised Clause 49 for all listed companies. The cell shall ascertain the adequacy and accuracy of disclosures in the quarterly compliance reports received from the companies and shall submit a consolidated compliance report to SEBI within 60 days from the end of each quarter.

Principles of Corporate Governance: The revised Clause 49 brings out the principles of corporate governance. The revised Clause 49 particularly states that in case of any ambiguity, the provisions shall be interpreted and applied in conformity with the said principles. Following is a brief overview of the said principles:

1. The rights of shareholders

a. The company should seek to protect and facilitate the exercise of shareholders' rights.

b. The company should provide adequate and timely information to shareholders.
c. The company should ensure equitable treatment of all shareholders, including minority and foreign shareholders.

2. Role of stakeholders in corporate governance: The Company should recognise the rights of stakeholders and encourage co-operation between company and the stakeholders.

3. Disclosure and transparency: The Company should ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the company.

4. Responsibilities of the Board of Directors

(a) Disclosure of information
(b) Key functions of the Board of Directors
(c) Other responsibilities.

BOARD OF DIRECTORS: COMPOSITION OF BOARD OF DIRECTORS

A. Woman Director: The Board of Directors of every listed company shall now be required to have at least one woman director.

B. Minimum Number of Independent Directors: It is stated in revised clause that if the chairman of the Board of Directors is a non-executive director, at least one-third of the Board should comprise of independent directors, and if the chairman of the Board is an executive director, at least half of the Board should comprise of independent directors. Also if the chairman of the Board is not a "regular non-executive director", at least half of the Board should comprise of independent directors. It is worth mentioning that the meaning of the term "regular" has not been defined.

C. Independent Directors: Definition of Independent Director

The definition of independent directors under revised clause 49 is more restrictive in nature. The definition in particular excludes a nominee director. Moreover, neither the independent director nor his/her relatives shall have pecuniary relationship or transaction beyond the limit prescribed during 2 years/the current year, nor can be a key managerial position/ employee in 3 preceding financial year and limit of 2 % shareholding now includes the shareholding of director's relatives also.

D. Limit on Number of Directorships: Regarding the limit on directorship, the revised clause formalizes that a person cannot serve as an independent Director in more than seven listed companies and if such person is serving as a whole time director in any listed company, then the limit on independent director get reduced to three listed companies.

E. Maximum Tenure of Independent Director: The revised clause 49 puts a restriction on the maximum tenure of independent directors. The maximum tenure of independent directors is capped at two terms of five consecutive years on passing of a special resolution by the company. Also if a person has already served as an independent director for five years or more in a company as on October 1, 2014, on completion of his present term, he/she shall be eligible for reappointment for only one more term of five years. Moreover, an independent director on completion of maximum tenure of 10 years shall be eligible for reappointment in that company only after the expiry of three years of ceasing to be an independent director in the company.

F. Formal letter of appointment to Independent Directors: The revised Clause 49 provides that the company shall provide a formal letter of appointment to Independent Directors. It shall be disclosed on the website of the company and the Stock Exchanges within one working day from the date of such appointment along with the detailed profile of independent director.

G. Performance Evaluation of Independent Directors: The revised Clause 49 formalizes the mandatory performance evaluation of independent directors and specifies that Nomination Committee shall lay down the evaluation criteria for performance evaluation of independent directors. Such evaluation shall be the basis for determination of reappointment of the independent directors. Moreover, company shall disclose it in its annual report.

H. Separate Meetings of Independent Directors: The revised Clause 49 adds a new requirement that the independent directors of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. All the independent directors of the company shall strive to be present at such meeting.

I. Training of Independent Directors: The revised Clause 49 also mandates the training of independent directors and prescribes that the company shall provide suitable training to independent directors to familiarize them with the company, their roles, rights, responsibilities in the company, nature of the industry in which the company operates, business model of the company, etc.

J. Non-Executive Directors' Compensation and Disclosures: The revised Clause 49 inserts a prohibition and specifically forbids the independent directors from being entitled to any stock option.

K. Other Provisions as to Board and Committees: The revised Clause 49 states that the Board shall meet at least four times in a year, with a maximum time gap of one hundred and twenty days between any two meetings.

With regard to filing the vacant position of the Independent Director (who has resigned or has been removed), the existing clause stated that the time limit would be within a period of not more than 180 days, but the revised clause 49 reduced it to either three months or the immediate next board meeting whichever is later. But, this provision would not apply, if the Board already has the requisite number of independent directors.

Moreover, the revised Clause 49 (II) (D) requires that the board of the company would now need to satisfy that plans are in place for orderly succession for appointments to the board and to senior management.

L. Code of Conduct: The revised Clause 49 requires that the duties of independent directors shall be incorporated in the code of conduct for board Members and senior management as specified in Companies Act, 2013. Moreover, the directors shall be held liable for such acts by a company that occur with his/her knowledge or if the director does not act diligently with respect to the requirements of the listing agreement.

M. Whistle Blower Policy: The revised Clause 49 formalizes the whistle blower policy requirements and has made it mandatory for the companies to have Whistle Blower Policy. The companies shall establish a vigil mechanism for directors and employees to report the management about unethical behavior, actual or suspected fraud, or Violation of the company's code of conduct or ethics policy.

This mechanism should also provide for adequate safeguards against victimisation of individuals who utilise such mechanism to report any concerns. The details of establishment of such mechanism shall be disclosed by the company on its website, and in the report of Board of Directors.

AUDIT COMMITTEE

Role of Audit Committee: The revised Clause 49 widens the role of the audit committee to additionally also include:

- Review and monitor the auditor's independence and performance, and effectiveness of audit process;
- Approval or any subsequent modification of transactions of the company with related parties;
- Scrutiny of inter-corporate loans and investments;
- Valuation of undertakings or assets of the company, wherever it is necessary; and

- Evaluation of internal financial controls and risk management systems.

Also, the meaning of 'related party transactions' shall now be determined by reference to the definitions given in the revised Clause 49 and not the definition contained in Accounting Standard 18.

Nomination and Remuneration Committee: The revised clause 49 requires listed companies to constitute a Nomination and Remuneration Committee, which shall comprise of at least three directors, all of whom shall be non - executive directors and at least half shall be independent and also the chairman of this committee shall be an independent director. Such committee shall be responsible for:

- Formulation of the criteria for determining qualifications, positive attributes and independence of a director;
- Formulation of criteria for evaluation of independent directors and the Board;
- Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend their appointment and removal;
- Recommend to the board of directors, the policy for remuneration of the directors, key managerial personnel and other employees; and
- Devising a policy on board diversity.

The company shall disclose the remuneration policy and the evaluation criteria in its annual report.

Subsidiary Companies: The revised clause expands the requirements for subsidiary companies. It requires that the company shall formulate a policy for determining 'material' subsidiaries; such policy shall be disclosed to stock exchanges and in the annual report. It is also mentioned in the revised clause that a subsidiary shall be considered as material if the investment of the company in subsidiary exceeds 20% of its consolidated net worth as per the audited balance sheet of the previous financial year or if the subsidiary has generated 20% of the consolidated income of the company during the previous financial year.

The revised clause also mentions that a company cannot dispose shares in a material subsidiary or cease to control it, without passing a special resolution in the general meeting. Further, prior approval by special resolution would be required to sell, dispose and lease more than 20% of the assets of the material subsidiary.

The revised Clause 49 also modifies the definition of a 'material non-listed Indian subsidiary', and replaces the references to "turnover" by "income", thus expanding the applicability of provisions for material non listed Indian subsidiary.

Risk Management: The revised Clause 49 formalises the risk assessment and minimisation procedures and requires that the board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the company. The revised Clause 49 also adds a new requirement (for only top 100 listed companies by market capitalisation as at the end of the immediate previous financial year) that a company shall also constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate its said responsibilities to such committee.

Related Party Transactions: The provisions of Clause 49 (VII) (Related Party Transactions) shall be applicable to all prospective transactions. All existing material related party contracts or arrangements as on the date of this circular which are likely to continue beyond March 31, 2015 shall be placed for approval of the shareholders in the first general meeting subsequent to October 01, 2014. However, a company may choose to get such contracts approved by the shareholders even before October 01, 2014.

Under revised norms, the Clause 49 (VII) deals with the related party transactions. Under it, a related party transaction includes transaction whether or not a price is charged. Besides others, the related parties also include additional relationships like a person that has a joint control or significant influence on the company and fellow joint ventures and associates. The revised Clause also requires that all the related party transactions should be approved by the audit committee. Also it requires approval of all material related party transactions by shareholders through special resolution with related parties abstaining from voting. A transaction is considered material if the transaction/transaction to be entered into individually or taken together with previous transactions during a financial year, exceeds 5% of the annual turnover or 20% of the net worth of the company as per the last audited financial statements of the company, whichever is higher.

Disclosure: The revised Clause 49 enhances the disclosure requirements, and among other things, provides:

A. Shareholders: Under revised Clause 49 (VIII) (E), a committee known as 'Shareholders/Investors Grievance Committee' is renamed as 'Stakeholders Relationship Committee. This committee is to be formed under chairmanship of a non executive director and any other member as decided by the board of the company shall be formed to look into redressal of grievances of shareholders, debenture holders and other security holders.

B. Disclosure of resignation of directors: In terms of new disclosures, disclosure with regard to resignation of directors has been inserted in Clause 49 (VIII) (F). Under this, the company shall disclose the letter of resignation along with detailed reasons provided by the director on its website and same shall be forwarded to stock exchanges within one working day.

C. Disclosure of formal letter of appointment: In terms of new disclosures, disclosure with regard to formal letter of appointment has been added under Clause 49 (VIII) (G). The letter of appointment of the independent director along with the detailed profile shall be disclosed on the company websites and the Stock Exchanges within one working day.

D. Disclosures in Annual report: Under Clause 49 (VIII) (H), disclosures relating to training imparted to the Independent Directors, establishment of vigil mechanism and remuneration policy and the evaluation criteria is required in the company's annual report.

Impact of Revised Clause 49 of the listing agreement on the Vardhman Textiles Limited (VTXL)

As per annual report 2012 -13 and 2011 – 12, an analysis of the impact on VTXL subsequent to revised Clause 49 becoming effective is as follows:-

- **Appointment of a new Independent Director**: Chairman Shri S. P. Oswal is the Executive Chairman, so at least half of the board should be independent. In VTXL, 6 out of 11 directors are independent. So, company is meeting the criteria of composition of Board. However, Mr. S. Padmanahan is a non executive independent Nominee Director (IDBI); and as per revised Clause 49 the nominee director is excluded from definition of independent director. So, in order to meet the requirements of new norm VTXL has to appoint one more independent director.
- **Disqualification Criteria for Independent Directors**: The revised Clause 49 (II) (B) expands the disqualification criteria for independent directors. So, VTXL needs to be more cautious while appointing the independent directors.
- **Tenure of Independent Directors**: As per the annual reports of VTXL, all the present independent directors had served the company for a period of more than five years. So, now they can be appointed as Independent Director for tenure of only five years. Moreover, VTXL

shall take a declaration from its independent directors that they do not serve as an independent director in other companies beyond the maximum limit.

- **Separate meeting of Independent Directors**: VTXL have to comply with the new norms of revised Clause 49 with regard to separate meeting of independent directors. The revised Clause 49 adds a new requirement that the independent directors of the company shall hold at least one meeting in a year, without the attendance of non – independent directors and members of management.
- **Formal Letter of Appointment and Training of Independent Directors**: According to the revised norms VTXL have to issue formal letter of appointment to the independent directors in the manner as provided in the Companies Act, 2013. And also the revised Clause 49 mandates the training of independent directors. So in order to comply with the new norm, the company has provide suitable training to independent directors to familiarize them with the company, their roles, rights, responsibilities in the company, nature of the industry in which the company operates, business model of the company, etc.
- **Succession planning for appointments to the Board and to Senior Management**: Under Revised Clause 49 (II) (D), a new norm is inserted which states that the board of the company shall satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management. So, VTXL need to put in place succession plans for appointment to the board and to senior management.
- **Amendment in Code of Conduct**: Under Clause 49 (II) (E), a new norm states that the code of conduct shall suitably incorporate the duties of independent directors as laid down in the Companies Act, 2013. So, with this regard VTXL need to redesign the code of conduct in order to include the duties of independent directors as laid down in the Companies Act, 2013.
- **Whistle Blower Policy**: As on date VTXL, does not have this policy as it was not a mandatory requirement but revised Clause 49 (II) (F) mandates the whistle blower policy for the companies. So in order to comply with the revised norms VTXL need to frame whistle blower policy.
- **Reconstitution of Remuneration Committee**: VTXL already had a remuneration committee but now in order to meet the new

criteria VTXL needs to reconstitute and rename its 'Remuneration Committee' as the 'Nomination and Remuneration Committee', with an independent chairman. Moreover, in existing clause 49, the performance evaluation of independent directors was a non – mandatory requirement. But the new norms make the performance evaluation of independent Directors compulsory. In order to comply with the new norm, the Nomination and Remuneration Committee will design the criterion for evaluation of independent directors.

- **Policy for determining 'Material' Subsidiaries**: Revised Clause 49 (V) requires that the company shall formulate a policy for determining 'material' subsidiaries; such policy shall be disclosed to stock exchanges and in the annual report. The 40th annual report 2012 – 13 of VTXL reflects that as on 31st March 2013, and as per the criteria mentioned in Clause 49 (V) for determining material subsidiary, the company does not have any material subsidiary. But in case if future if VTXL have a material subsidiary then in order to meet the norms under Clause 49 (V), VTXL need to formulate a policy for determining 'material subsidiary'. Moreover, this policy shall be disclosed to stock exchanges and in the annual report of the company.
- **Policy related to Related Party Transactions**: Revised Clause 49 (VII) mandates the company to frame a policy related to the 'Related Party Transactions', for this VTXL need to formulate a policy on 'material related party transactions' and check if related party transactions entered into by VTXL falls in the criteria of material related party transactions.
- **Reconstitution of Shareholders Grievance Committee**: VTXL already has a Shareholders Grievance Committee, but according to revised norms under Clause 49 (VIII) (E), the company has to reconstitute and rename this committee as 'Stakeholders Relationship Committee'.

CONCLUSION

After study of the existing Clause 49 of the listing agreement and revised Clause 49 of the listing agreement, it can be concluded that there has been significant changes in the listing agreement. Basically in order to align the provisions of the listing agreement with the provisions of newly enacted Companies Act, 2013; SEBI has made these amendments. With the implementation of these amendments and its strict monitoring by SEBI, the corporate governance framework for the listed companies in India will strengthen and become more effective. The recent scam cases like that of Satyam and Sahara highlighted need for strengthened corporate governance norms in country. The revised clause 49 of the listing agreement provides for desired disclosure requirements, and mandates various other provisions like whistle blower policy, which would certainly make the corporate governance framework more effective. Companies will need to evaluate the impact of amendments and new norms of revised clause and shall implement these changes. In Vardhman Textiles Limited, the company has been complying with the requirements of corporate governance since its inception. Now in order to strengthen the corporate governance framework and to comply with the revised Clause 49, the company has to make certain procedural amendments and incorporate new provisions and policies in the organization. Thus, it can be concluded that time and again, SEBI had issued various rules and regulation for effective and strengthened corporate governance in India, but the obligation to pursue the same lies with the companies so that they can have long term survival and compete in the international market. As it is rightly said by Kumar Mangalam Birla (Committee Report on Corporate Governance), "Corporate governance is indispensable to effective market discipline."

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chapter 14

Corporate Governance & Business Ethics in Indian IT Companies: A Case Study of Satyam

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ABSTRACT

Business operations at international levels have created fresh opportunities and problems for business executives. Important issues arise and seek appropriate attention when corporates cross their own national and cultural boundaries. New far-reaching patterns of interdependence are established for collaboration and co-existence. Prominent among those issues are the ones focusing upon development of internationally shared values and standards that are necessary for survival and economic success. A challenge of information technology is to create information systems that will actually be used by people to share, propagate and use organizational knowledge with accepted business ethics. Technology used for creating knowledge management systems should be human centered technology. Organizations must strive to understand and develop a synergy between capabilities of humans and capacities of information and business communication technologies.

There has been considerable discussion going on in India about the social responsibility of business. This has been stimulated partly by one of the prominent scandal of Indian IT giant Satyam Computer Services. The scandal of Satyam, while unfolding, has raised thought-provoking questions about how Indian companies define and practice business ethics. Authors have brought out a new dimension to the word 'Business Ethics' and in the conclusion, we have tried, in our earnestness suggest the code of 'Universal Business Ethics'.

INTRODUCTION

Issue of global ethical practice cannot be discussed and dissected without taking culture into consideration. Much has been written and discussed / debated about cross cultural barriers and how cultural issues have emerged to be major hindrances in global business practices. Although; considerable deliberations have been done on the practice of culture globally; interestingly the learned stalwarts in this field some how paid less emphasis on link between ethics and culture. More so, on how moralities and legalities should be involved in the implementation of business ethics to make it globally viable and to make it a stable uniform global phenomenon. So, why can't we think on the lines of standardizing global ethics as we have done in other areas of sciences, arts and management with legal connotations attached to it? If the global ethics parameters become same and if there are laws to govern them, then the practices would become much easier and a matter of implementation only rather than learning from each culture and the host country trying and adjusting to the requirement of the foreign inhabitants.

We know, if knowledge is not shared, it becomes obsolete and deteriorates; therefore, it does not add value to organisational performance. Facilitating knowledge sharing to impact on organisational performance is now a necessity for organisations in today's global economic environment.

Most studies fail to link knowledge sharing with practices of business ethics in contributing to overall organisational performance, thus, we assess the influence & applicability of KMS along with IT in formulation and implementation of 'Universal (Global) Business Ethics' to increase organisational performance.

WHERE DO WE START FROM

Although the great Indian epic Mahabharata has depicted the strongest ever available evidences and evidential circumstances for ethical, unethical, moral and immoral behaviour, yet the manifestation of moral behaviour did not occur, for centuries, which is evident from the behavioural patterns of the Indian society.

This did not happen because there was no proper or appropriate mechanism or vehicle to gracefully carry the message. Also because there was nothing to stop people going astray in the face of debates on high morality.

PROPOSED MODEL

Whereas, the meaning of the word and spirit does not change; whole lot of re-organising and re-arranging needs to be done. From the word 'ethics' we know, we have to re-organise it in the face of 'Global Business Ethics'. Which we could easily give the nomenclature of "Universal Business Ethics"; in which we will have drawn all our wisdom & knowledge from the existing available description in different sections or sects.

Standardized, universal, ethical procedures are structured for assimilation by the global society. The incorporation and implementation may be entrusted upon the WTO, on the similar lines of promoting and protecting Intellectual Property Rights. If sports like Cricket, Hockey, Soccer and others can be played on common grounds with common rules, then we are sure that business can also be done on similar lines. While structuring this universal ethical code we could refer back to the origin and practices starting with 'ethos' which meant 'character' and 'discipline'. We could also take the help of Prof. Robert Soloman's basic concepts of individual character and social rules otherwise called morality.

Here, also we must clear the distinction between 'personal' and 'business ethics' because both will be required in the course of discharging duties across boundaries. Similarly, we can have morality associated with law under the aegis of WTO on the similar lines of Statutes, Common law, Regulations and Constitutional Law.

The question of professional code and Business Ethics will include both religion and morality, as morality and religion are very closely linked. As in both; the state of conformity as well as differences in religious outlook of nations is distinct.

Relativism and Gilbert Harman's doctrine will also find a place and make great sense in the evolvement of "Universal Business Ethics". The universal professional code of business conduct will thus be a continuous changing and improving phenomenon rather than having no scope for future evolvement.

PRACTICES OF GLOBAL BUSINESS ETHICS IN INDIAN IT COMPANIES

Talking of integrity and practices of moral decision making and judgment, the first and the foremost step is to go back to the basic elements of ethics, which are: morality, values, ethos, justice and conscious.

Are the Indian IT companies practicing all these? Are they preaching any or all of these? Or are they only preaching and not practicing any or all of these, is a big quonundrum and the hallmark of this talk, because unless practiced none of these elements can be termed as ethics.

Another, key element hence is Global Business Ethics sense run hand and glove with personal ethics and isolation at any stage is not possible.

Cognizance of this would be required in sensitive and conflicting areas, where a person with a very well defined Business Ethics may run short on the personal front or vice versa.

Social order of today needs to be redefined for this purpose. For ethical purpose Indian society can be defined in four quadrants on the similar lines of Mr. CK Pralad's "Bottom of the Pyramid" applicable in marketing.

The Aristocratic thought or type of people would generally be self disciplined and high on traditions, moralities and ethics as a matter of self-respect and pride will fall in **the first quadrant.**

The second quadrant of Popularist approach is where most of the danger lies. They are doing things, which people like and they get quick response and reward, irrespective of moral issues. They don't share any real moral responsibilities and they do not care where society is going. Irony is that they are often found preaching morality.

The third quadrant of dwindling population is also an inherent danger. As their dwindling moralities have no basis and they always, willingly or unwillingly tilt towards majority. They don't have their ethical or moral commitments or they do not want to form / follow their own judgments. Unfortunately at times, such people can form majority.

The fourth quadrant; the silent spectators is equally contributing if not actively / aggressively but in a very passive manner.

CHALLENGES & SOLUTIONS

In the face of above, ethics face challenges not only within societies and nations but also globally. As there is no well defined, pre- determined course, values, moralities & ethics. Nor are there any defined guidelines. Where do the individuals, societies and nations go from here? What implementation tools can thus be applicable in such a situation; and evidently no single course or tool can apparently fulfill the demand.

Societies have faced this problem from the onset of civilization and social order. It saw many ups and downs and bumps in the evolution of ethics.-"we can say there were no ethics for making or following ethics".

Fortunately, for us today, this situation can seemingly be contained with the help of tool IT, both at the formation & implementation stage. We can call this as "Advantage IT'. Because IT is the only available tool which can create foolproof, guarded structure and also oversee foolproof transparent implementation with the help of firewalls, limited access and coded terminology. And the entire gamut of exercise can be undertaken under the aegis of WTO.

The answer lies in the invent of the IT in the modern perspective. We think, that IT is one proper medium which can, not only can keep message alive for a long time but also make people imbibe this message.

Another advantageous dimension, which is, of bigger relevance, is, that rather than checking the unethical or immoral behavior, IT can device a system that can prevent people from going astray. It may require lot of support from governing agencies and political will.

IT and KMS become the premise for propagating the exercise of creating "Universal Business Ethics Code". IT can have an inherent quality and provision to plug the virus of unethical situations, non transparency can be checked, which is bliss. KM goes hand in hand in implementing such a structure. Having created structure, with deliberation on all the global aspects the major challenges will lie in implementation as many nations are involved and if WTO is to be the fulcrum and hub, concurrence of one and all will be required. If in the interest of nations and progress of global economy members decide to back up and earnestly bring out the 'draft' / 'charter' it will be a win win situation. Otherwise, some nation/s out of vested interested may resort to unethical practices even in the course of formation of such ethics.

But as optimistic researchers, we have full faith that honest efforts must and should be made in this direction as the results and the outcomes will not be limited to ethical issues but will essentially impact the economies of all the nations.

ISSUES

1. Individual Moralities & Differences

Issues will evolve at the level of personal ethics and moralities and at the corporate level. On the individual front statements like-

a. "Right and wrong is a matter of choice".
b. "The essence of virtue lies in the will."
c. "We are all conditioned in predictable way."
d. "Relativity has a major role to play in understanding of ethics." Would form the basis of issues.

Moral laws, Judgments and Prof. Kant's doctrines will have a lot of influence and impact on defining these statements.

2. The Balancing Act

In the theoretical framework and the research work done till now it is evidently clear that there is no clear rationale and drawn lines for ethical behaviour.

It falls in the purview of human perception and judgments. Individualistic item wise parameters can be framed for convenience and universality but tight screw generalization is not possible as far as the generalized conceptual framework is concerned.

3. Extent & Gravity of Ethical Impact

Even where the judgments are based on factual and evidential circumstances, gauging the extent and the gravity may not always be possible. Therefore, a big challenge lies when you are using IT as a tool to create structured parameters for different possible applicable situations. Such things can be made possible only in a knowledge sharing intensive environment using IT as an effective tool where different parametric permutations and combinations can be worked out simultaneously.

4. Enforcement Issues

Ethics like law need to be enforced and embedded in the society. Re-enforcement will follow suit. If left on choice it will again remain as an issue of debate – dwindling; on what is right and what is wrong. Just as we all know that democracy is not liberty and to be true democratic nation needs to enforce democracy on the people like the great lands of USA has successfully proven it.

Still bigger issue would come at the implementation stage where human elements and behavioral sciences will be at cross roads. The perception and judgments at individual and societal levels may tend to vary ensuing wasteful debates, wastages and untruthful conclusions.

To be true to everyone's demands; and to bring everyone on the same platform is an arduous task. Therefore, drafting and implementation need careful consideration with concurrence of one and all. This apart; the WTO will also need to have an appeal body / ethical ombudsman ship for appropriate interpretation.

The administration wing; having obtained democratic concurrence at initial stages must act as a strong enforcement agent without which the whole effort may go in doldrums.

PRACTICES

People in India still have a long way to go; as ethics and morality per say are mostly used for 'advantage' and 'convenience'. Common Malpractices include:

- Strong commitment and 'will' to follow the ethics, needs to be developed more.
- Unethical practices lead to system failure.

- Intellectual property rights and fundamental principles of natural property rights.
- Consciousness ethics is more crucial to intellectual ethics and therefore needs more reinforcement.
- Lack of systematic & empirical investigations practices.
- Slow adoption of attitude orientation and practices on part of management.
- Capitalism is in its purest form.

SATYAM CASE ANALYSIS: (SATYAM'S ASATYAM)

Whereas the practices, challenges and issues discussed above do lead us to a focused direction and very close to the course with the help of tool 'IT' in a knowledge management system, the formation of the structure brick by brick, though may result in a long process but will eventually turn out closer to perfection. And therefore, it may not be of greater concern. The real concern would lie in the implementation again.

As quoted earlier, 'the essence of virtue lies in the will'. It is again a matter of determination and dedication on the part of those at the helm of the affairs, whether the ingredients during the structural formations are accurate, true and conforming to the acceptable global moral standards or are camouflaged in such a garb to further vested interests.

We are all aware of the case of Satyam;

PERCEPTION OF YOUNG INDIA

Analyzed commented and discussed painstakingly the Satyam's dilemma has posed multifarious dimensional questions & quonundrums. Whereas the Gen X in country feels about Ethics and its importance, they are also confronted with the dilemma of dwindling situation that a person can have a good night sleep with non-ethical practices as good as with person having ethics and morals.

This essentially is a conflicting viewpoint and is extremely detrimental to the entire fabric of the society as basic perception about lack of direction and faith in ethics & values will result in a shallow and pseudo social structure rather than a holistic and inclusive approach.

It, then, is not a question of simple belief and faith; it is a question of inheriting the values & legacies from generations to generations, which had undoubtedly been basic essence and foundation of any civilization.

It, therefore, implies that for any organization or society the first and foremost thing at the premise of belief is conviction and this can best be understood by quoting religion, as example.

CONTRADICTION IN ETHICAL PRACTICE

Ambitions & achievements need not always go hand in hand. Now the question is where does one draw the line?

We are not trying to be judgmental on issue; we are propagating our hypothesis on IT and its relationship with business ethics.

Granted that Raju, let down himself on personal moralities, by way of misappropriation of corporate funds. The quonundrums is; did he lose his moralistic standards or ethics after the achievement of great success; or the elements of immorality were co-existing all along and this element of embedded immorality was waiting for the right opportune moment to arise.

We have to look into the problem from a very different angle rather than stereotype. A new thought process has to be evolved and established e.g.: in this case (Satyam) the immorality entered in his moral being at a later stage or was it an existing streak looking for an avenue. Whatever, the case may be with the existing levels of development of IT and KMS we should be able to co-relate it with the ethics (personal / business) and find out not only the extant but also remedial measures to contain all types of immorality.

A renewed thinking is required with the help of latest IT tools.

It will then only give a new dimension to the Business ethics and also bring about a phenomenal mega change in the entire ethical fabric of the society.

CONCLUSION

To sum up, we propose:

- Go about creating a harmony and consensus to bring about nations on a single platform.
- Uniformity in common conduct in the face of varying religious beliefs and moralities.
- To overcome vested interests.
- Practical difficulties in view of the natural and geographical locations.
- Promotion & propagation of ethics as a global phenomenon worldwide through educational system and otherwise.
- Designing and implementing punitive measures for unethical practices.

- Enforcement and re-enforcement of Code of Universal Business Ethics (UBE).
- Review and remodeling of ethical behavior as a continuous process.

Thus it may be seen that IT not only gives directional communication, which is lacking in existing system, recorded communication, remedial communication and then is foolproof, transparent and can check the loop holes of the system, Last but not the least IT also gives us scope for future evolvement. To conclude and support our Indian school of thought it would be appropriate to quote Mahatma Gandhi. "True equality is the true morality or true wisdom".

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chapter 15

A study on E-Governance: E-Governance Embedded Rural Telecentres (EGERT)

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ABSTRACT

In the recent years, two significant changes have taken place in an effort to address the rural poor: Businesses have started recognizing the potential of rural markets and governments have started using telecenters for providing government-to-citizen G2C services to rural citizens. In India, the national and sub-national governments have supported businesses to establish telecenters in rural areas to provide information technology-enabled services. However, the focus so far has been mostly on B2C services and financial viability of the common service centres (CSCs) is being questioned. In developing countries like India, where literacy level is very low and even most of the people are living below poverty line, people are not even aware about the benefits of e Governance activities and people do not use Information and Communication Technologies to a much extent, there exist a number of problems to implement e-Governance. Considering that the poor can benefit substantially from government programmes and services, improvements in the effectiveness of their delivery would invariably foster inclusive growth and help bridge digital divide. The paper is an attempt to map this diversity to serve as a starting point for any in-depth studies on telecenters.

Key Words: E-governance, Telecentres.

INTRODUCTION

Telecentres have been hailed as the solution to development problems around the world because of their ability to provide desperately needed access to information and communication technologies (ICTs) (Gómez and Hunt 1999). A significant numbers of such centres have been piloted and implemented by various governmental and development agencies across the globe.

Telecentres have considerable potential for narrowing the *"digital divide"* in remote, rural and otherwise disadvantaged communities. They can be especially useful in helping developing countries and rural areas take advantage of the information economy, access education, government information, healthcare and other services, and develop socially and economically. Some telecentres and telecentre networks - most often those found in countries where sufficient funds are available - have been highly successful. A number of these features as case studies in this book. For other centres and networks, however, the experiences have been less than encouraging, especially in developing countries. This may be attributable to a range of factors, such as the fact that many telecentre projects are still at the pilot stage or in their early years of operation. Other potentially problematic issues include financing telecentres and choosing appropriate ownership models, both of which manifest themselves in implementation shortcomings.

It is seen that the facilities and usage have varied usage. The intention behind is to provide technology help them build human capacity and provide all round development. These centres are operated by the full and part time staff and volunteers. These numbers are dependent upon the size and extent of the services provided. Originating in Sweden around 1985, telecentres (also known as "telecottages") experienced fairly rapid growth in Western Europe and other industrialised countries where rural isolation, lack of purchasing power and low-quality telecommunications and information technology facilities were seen to be a hindrance to participation in the information economy. By 1994, there were more than 230 telecenters in Australia, Austria, Canada, Denmark, Finland, Germany, Ireland, Japan, Norway, Sweden, the UK and the USA. The idea then spread and has become adapted to the needs of emerging markets and developing countries.

It is to be noted that it is Hungary in central Europe that had established a large number of rural telecottages around 150 and more. These telecenters are spread across the rural and urban belt of both the developed and developing world. There are few telecommunication services which are referred as phone shops or PCO that is Public Call Offices. Countries like Peru Morocco Senegal, India and Bangladesh have started independently to develop them. However there is low of penetration but a large enough market for public access businesses to be commercially viable. Telecentres is one of the medium to spread the ICT services and applications. This is for the purpose of taking benefit of expanding availability and gets access to growing world of technology that is internet.

TECHNOLOGY TRENDS: A CHALLENGING OPPORTUNITY

The proliferation and use of ICTs presents opportunities and challenges both to the mature service-oriented economies of Europe, Australasia and North America and to developing countries. Current technology and market trends fall into four main categories:

- Convergence: Increasingly, information, communications and media technologies are coming together, offering seamless access to a full range of multimedia resources.
- Internet: Its proliferation in many aspects of daily life is widespread and it is transforming business through e-commerce.
- *Wireless and satellite:* These new, go-anywhere technologies also promise lower costs.
- *Privatisation and liberalisation:* These are the twin vehicles for accelerating and facilitating technological advance and access to the wide range of options. Even in advanced economies, there are rural and remote communities that have been left behind in terms of educational and technological equity and access. The technological revolution that is transforming our economies and societies into information economies and information societies meets with many obstacles in developing countries and is in danger of widening the now well-known "digital divide." Conversely, the technological advances provide the means for "leapfrogging" - that is, the opportunity for developing countries to jump to a new paradigm before problems of delivery have been solved by traditional means, both in technical and economical terms. Even allowing for the rhetoric and hype about the new technologies, developing countries and rural communities could generally take advantage of the benefits available through the following:
- *The Internet and Web* - the benefits: new and enlarged sources of information and knowledge

- *E-mail and chat rooms* - the benefits: new forms of communication and "virtual organisations"
- *The extraordinary pace of software development* - the benefits: generic and locally produced teaching, training and information material, with enhanced graphics, animation and interaction
- *The lowering of bandwidth costs and emergence of enhanced cable, wireless and satellite systems* - the benefits: greater opportunities for videoconferencing, online learning, etc.
- *Public access schemes* - the benefits: greater assistance to lower income groups and disadvantaged communities

However, realising this potential calls for political will and support, and for solutions to four key obstacles:

- Access to technology.
- Affordability and financing.
- Inappropriate regulatory frameworks.
- Shortage of knowledge and skills to develop and implement ICT-based systems.

THE TELECENTRE CONCEPT

Telecentres may be defined as strategically located facilities providing public access to ICT-based services and applications. They are typically equipped with some combination of:

- Telecommunication services such as telephony, fax, e-mail and Internet (via dial-up or ISDN, high-speed telecommunications network);
- Office equipment such as computers, CD-ROM, printers and photocopiers;
- Multimedia hardware and software, including radio, TV and video;
- Meeting spaces for local business or community use, training and so on.
- Extend the reach of public services such as education, health and social services;
- Provide information of general interest to the local community, including government information, and of special interest to specific groups such as farmers, local businesses and non-governmental organisations (NGOs); and

- Provide access to infrastructure, technology support and advice for the development.

Moving ahead we find that ITU (International Telecommunications Unions) is also promoting and developing the concept of MCT that is multipurpose Community Telecentres. These MCT facilitates related to training workshops, video conferencing, training in ICT, telemedicine, tele health and tele banking and ecommerce activities.

These telecenters across the world also function as a community information centres, facilitating access to databases, and transferring information of general interest to local people. Information like weather information, prices of farm produce, education regarding the various aspects of agriculture. It is great to see that the purpose of telecenters is much more beyond the telephony. Another objective is to expand access to ICT based services.

TELECENTRE EXPERIENCE AND EVALUATION

Experience with services, usage and the problems, issues and achievements of telecentres are reviewed in this section, with a particular focus on developing countries and emerging markets. Evaluation of telecentres in developing countries, especially in terms of socio-economic impact assessment, is scant so far. This can be attributed to the very early stages of most of the projects. However, evaluation frameworks and methodologies are emerging (see Gómez and Hunt 1999).Evidence of performance in developing countries is also still very limited. It must be borne in mind that cases vary according to the nature of the location, the year of development and the regulatory environment, among other factors. Thus, generalisations can be made only cautiously at this stage.

EGERT-CSC

The term telecentre is a general term which is used for all types of arrangements - Kiosks, Rural knowledge centres. With the help of computers and internet telecenters aim at providing mediated access to vast information. Various government and non government agencies have piloted the telecenters, changed and enhanced the working of telecenters.

A rough estimate would give the figure of around 20,000 telecenters dotting various parts of rural India apart from the two lakh planned as part of Mission 2007 and NeGP - Common Service Centres (CSCs).

One of the unique features of telecenters in rural India is the diversity in terms of agencies engaged, motives and organisational structure etc. Economic growth, e-governance and human development are the main key development of ICT – D interventions. It is expected that there is going to be a manifold increase in the telecenters in the rural India. It is because of the Common Service Centres all across the country under its National E-Governance Plan,

TELECENTRES IN RURAL INDIA

The telecentre movement in India is primarily associated with rural areas. The movement began around 1992, but actually started taking shape around 1998. In 1992, an interdisciplinary dialogue on "Information Technology: Reaching the Unreached was organized by the M. S. Swaminathan Research Foundation (MSSRF), Chennai. It emphasized the importance of ICT's in promoting sustainable agriculture and rural development in the developing world and mooted the use of ICTs for providing access to knowledge (Vasanth and Senthilkumaran, n.d.). In 1998, MSSRF with funding support from IDRC initiated the Information Village Research Project in two village of Pondicherry in South India. Around the same time, in the western state of Maharashtra, the Warana Wired Village Project was piloted in the 70 villages of Kohlapur and Sangli. The project was initiated on the recommendation of the Prime Minister's task force on IT to demonstrate the use of new technologies for integrated rural development. In the following years of 1999-2000, numerous telecentre projects were piloted in different parts of the country including Gyandoot in Madhya Pradesh, SARI in Tamil Nadu and Tarahaat in Bundelkhand. The agencies involved were either government department or non-profit organisations. In subsequent years, private agencies like Drishtee and n-Logue were established to act as network orchestrator of information kiosks in rural India. Corporate like ITC-IBD also started setting up their network of e-Choupals as an alternate procurement channel. The entry of private sector organisations led to a dramatic increase in the number of rural kiosks. The movement has gained further momentum with the formation of a national alliance called mission 2007 that seeks to put at least one kiosk in one-lakh villages of India. The government of India committed around Rs. 5,742 crore for setting up one-lakh Common Service Centres (CSCs) under its National e-Governance Plan. Although the number of exact telecentres in rural India is not known, roughly there would be more than 20,000 kiosks. It can be also be observed that the telecentre movement in India is marked by its diversity, especially in the type of agency involved, ownership of individual kiosks, purpose, technology deployed and the services provided.

The number of services that can potentially be delivered through a CSC (Common service Centers) depends on the nature of service, technical feasibility of delivering those services in rural areas and needs of the various stakeholders – citizen, government and business. The volume of services demanded would depend on the price of the service and the quality of the service which includes how integrated and complete these services are. For example, farmer would value highly the services that are integrated, that is, services that address input procurement, crop production as well as marketing the produce (figure 1). Farmers would also value services that are complete. For example, for availing a loan, it may not be sufficient to give information about where the loan is available or what the interest rates are, but should have complete information on the terms and conditions, how to apply, documents needed, availability of application, assistance to complete applications, submission of completed applications, follow-up on the application, delivery of loan granted and guidance on repayment, etc. (table1). Citizens would also prefer a cluster of services that cater to various aspects of living and livelihood such as education, health, agriculture, entrepreneurial, communication, bill payment, government certificates, entertainment, etc. (figure 2) in one place so that the telecenters acts as a one-stop-shop for various services reducing transaction cost for the citizen 8in availing each service. This would also increase the footfalls for the telecenters which promote cross-selling of services resulting in larger volume being delivered for each service by the telecenters.

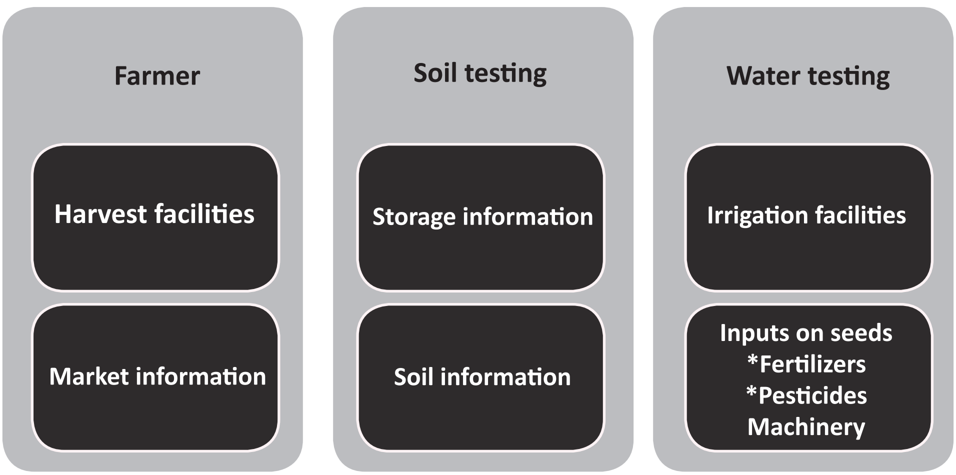

Fig. 1: Integration of Services Related to Crop Production

As the government is a major provider of several important services in rural areas such as health, education, agriculture, drinking water, women and child welfare, etc.; clustering, integrating and ensuring completeness of services in telecenters necessitates embedding of services provided by the government. Such e-Governance Embedded Rural Telecenters (EGERT) can, by functioning as information networks, providing transactional and transformational services; facilitate improved flow of information between government, business and citizens leading to substantial dual gains. First, providing both private and government services enables telecenters to provide integrated and complete services, increases the trust of the citizens in the telecenters (Kurian & Ray, 2009) and increases the footfalls enabling cross-selling of services. Second, these telecenters can provide government services more effectively utilizing efficiency of the private sector and thereby strengthen last mile governance. Clustering of services will also help to take advantage of economies of scope. Delivery of many services need common equipments and skill requirements such as in the case of tuition for students and farmers' training, various bill payments, etc. and therefore amenable to cost reduction for each service. Computer, projector and the screen used for tuition for students can be utilized for farmers training on agricultural practices.

IMPLICATIONS OF E-GOVERNANCE EMBEDDED RURAL TELECENTRES ON LOCAL GOVERNANCE

Information can play a crucial role in improving the interaction between government and rural citizens. The advantages from availability of information accrue not only to citizens but can also help in substantially improving the following aspects of public service delivery.

(1) ***Planning:*** With more accurate and timely data available at each delivery point, government programmes and services can be planned better. For example, with accurate data about usage of health services, the stock of drugs required at a Primary Health Centre (PHC) can be managed more efficiently.

(2) ***Execution:*** With more frequent data at the delivery points, services delivery can be executed better by reducing the time between realizing the need for action and its execution. For example, with weekly data on stocks of food grains at the school for midday-meal scheme for children, the stock can be replenished whenever it goes below a desired level.

(3) ***Monitoring:*** Availability of accurate and frequent data can help in fine tuning or course correction required for government programmes. Detailed data about health and nutritional indicators of a village can help in evaluating the effectiveness of government interventions.

(4) ***Evaluation:*** With more accurate and detailed data, the evaluation of a programme can be more appropriately conducted. For example, with more accurate information on the individual asset created

under National Rural Employment Guarantee Schemes (NREGS), the total asset creation through the employment programme can be more accurately assessed and the benefit from the money spent in the programme would be more accurately known.

EMERGENCE OF TELECENTRES AS DEVELOPMENT INTERVENTION

Telecentres as means of providing shared and mediated access to information and services via new technologies effect development through

(a) ***Development of physical infrastructure:*** Telecenters act as a means to bridge the digital divide provides connectivity in rural areas. It is hoped that ICTs would overcome the physical barriers of traditional infrastructure like road and transport, thus bridging the isolation and remoteness of rural areas. ICTs have often been also described, as "accelerator" and their provisions will speed-up the provision of other physical infrastructure.

(b) ***Economic development:*** Telecenters effect economic development by generating direct or indirect employment; integrating relatively isolated communities into national and international information network, thus accelerating the exchange of private goods and services. Telecenters can lead to an increase in income and hence improvements in the livelihoods of the people by providing increased access to information related to the market, better farming practices, available job opportunities etc.

(c) ***Administrative reforms:*** Telecenters as delivery points for e-government services can lead to better local administration and improved government-citizen/business/government interface leading towards increased reach, transparency, responsiveness, accountability, efficiency, effectiveness, citizen's empowerment and participation.

(d) ***Social and cultural development (education, health, gender etc):*** Telecenters can improve access to basic services like health and education. They also enable two-way exchange of communication, ideas, expertise, goods and services via national and international networks and forums. Telecenters empower rural farmers, women and other groups by providing access to information, training and education.

CONCLUSION

At the end it is suggested that access and use of telecenters and their services are mediated by the multiple contexts in which they are embedded.

While they provide opportunities for people to interact with new technologies, their impact has been mainly in terms of convenience provided by some of the services vis-à-vis existing alternate channels. Particular telecenters models have brought about some change, but this is only when there was a match between the services provided and the local demand for particular information and services. The delivery structure services in terms of user fee need for reading and computing skills, and linkages with existing institutional context have further shaped access and use.

The efficacy of telecentres in generating new jobs in rural areas, increasing efficiency and reach of e-Governance and other basic services, enhancing livelihoods and the well-being of the people, and overcoming the rural-urban divide has been limited. Its time that we used the facilities so given to us by e governance and enhance the efficacy of the same!!

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chapter 16

M-Governance: An Anchorage for Effective Governance

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ABSTRACT

With the advancement in technology people eager to experience something new and easy. In result of this e-governance extended to mobile platforms i.e., called 'm-Governance', to support public sector work processes and development. M-Governance is an application of Mobile or Wireless communication technologies for delivering information or services to peoples and promotes better governance through the departmental integration. This chapter deeply focuses on the importance of m-Governance for the faster and efficient way of service delivery. The brief account has been made on various infrastructural facilities available for m-governance, suggestions for the growth and to overcome the barriers associated with this system.

Key words: m-Governance, Anchorage, e- Governance, Digital Divide, ICT

INTRODUCTION

The actual term governance comes from an ancient Greek word, *kebernon*, which means to steer. In current usage, to govern means to steer, to control, and to influence from a position of authority. There is a rapidly growing interest in the concept of mobility and the various issues that arise in *'being mobile',* both for the individual and the organization (Kakihara, 2003). M-Governance is the part of a huge process of mobile-based development which initiated with the help of electronic devices and making them available at mobile platform. It further extends the benefits of remote delivery of various public services and information to those who are willing to access public services through the Internet, or those who simply prefer to use their mobile devices. Mobile phones enable people to get access to various public services virtually in any place covered by a mobile network at a cheapest cost as compared to other mode of communication such as internet services. The potentiality of m-Governance cannot be over looked as it has a wide and sustained access to a population at large either in urban area or rural area. According to the study of (Internet and mobile association of India) IAMAI, there are 312 million mobile internet user in India up to June 2015 in which 128 million belongs to the urban population and the rest 45 million belonged to rural area. m-Governance are also considered to be an effective instrumentation in strengthening democracy through citizen-government interaction in effective way, thus influencing the political decisions, policies and transparency governments activities.

M-Governance is actually a sub-domain of e-governance. It has the possibility to outstretch the reach of e-governance. The concept of e-Governance is the use of information and communication technologies (ICTs) to ameliorate the activities of various public sector organizations. Whereas, m-Governance has the potential to make public information and governance services available anytime, anywhere to peoples and officials. E-Governance was forwarded to m-Governance to smashed the barrier of Digital Divide that persist in 125 crore population of India. Government initiatives like Digital India, BharatNet, Wi-Fi Hotspots, 4G etc. are ready to empower the India with faster and efficient services such as Digital Locker, e-Hospital, e- payment, e- sign, National Scholarships Portal, Digital India Platform, Employment Portals and Apps etc. These are going to improve and establish a strong ICT infrastructure which further support in the success of m-Governance.

LITERATURE REVIEW

Rameesh Kailasam (2014) accounted M-Governance is the use of mobile or wireless technologies to improve Governance and information "anytime, anywhere" and Mobile applications play a major role on back office ICT infrastructure. Johan Hailstorm (2009) in his paper titled "Mobile Governance: Applications, Challenges and Scaling-up" have suggested that 'Mobile phones as a tool for service delivery and a way to communicate with its citizens'. Mobile phones affect the way citizens interact with each other and with the society as whole. Omar Al-Hujran (2012) did a quantitative study to list the success factors in the implementation of m-Governance services in a developing country. The analysis pointed out trust, cost, infrastructural constraints, public awareness and the lack of an enabling legal framework as the main factors obstruct the complete cognizance of the m-Governance services.

OBJECTIVES

- To explore the conceptual framework of m-Governance.
- To study the infrastructural facilities available for the success of m-Governance.
- To identify the challenges of various aspect of m-Governance.
- To analyze the growth and attributes associated with the success of m-Governance.

RESEARCH METHODOLOGY

Research is descriptive in nature. The secondary data collection method such as content analysis is used to analyze various contents drawn from sources like reputed journals, periodicals, books and web sources.

INFRASTRUCTURAL SUPPORT FORM - GOVERNANCE

MSDG (Mobile Service Delivery Gateway) is the core infrastructure for enabling the availability of public services through mobile devices. MSDG shall support the following delivery channels for development and deployment of mobile-based applications. As the mobile-based technologies are constantly evolving, more channels may be added in future as the need arises.

IVR (Interactive Voice Response): The Interactive Voice Response System facilitate caller with exhaustive menu options and pre-record greetings which can be selected using his telephone keypad. In the context of m-governance, this application is meant to serve the C2B/ C2G and B2C/G2C wings of the e-Governance model. The crucial services such as Train Enquiry and some basic services such as Gas booking, Mobile support services are compelling and draw a lot of enquiries from the consumers.

SMS (Short Message Service): The SMS Gateway provides both Push and Pull SMS services for government and consumers respectively.

(a) **Push SMS:** In the push service, a common information service can be pushed to group of people based on their demography, gender, location, community, etc. Peoples can also request information at individual level by sending an SMS in a particular format to a particular number. Push SMS is used to send alerts/notifications to the consumers related to various mobile services. MSDG in arrangement with telecom operator assigns a sender ID to the organization. When the consumer receives the SMS, he/she will able to see this sender ID and can recognize the sending department.

XY-ZZZZZZ e.g. **BM-IPAYTM**

(Where first two digits refer telecom operator and circle code and last six digits are acronyms of the department/ organization)

The push massage originates from the organization and forwarded to the MSDG which further reaches to consumers with the help of their telecom operator.

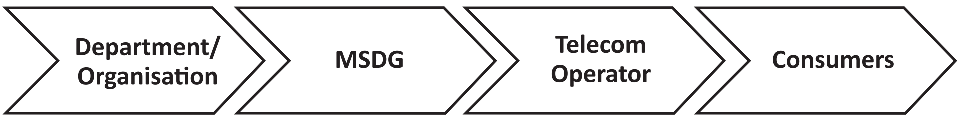


Fig. 1: Flow diagram for Push SMS

(b) Pull SMS: In case of pull SMS MSDG platform provides one single code where the users are supposed to send the enquiry through SMS. This facility can be availed by the business departments by providing SMS format, in which users will send the query.

CBSE 12 <your rollno.> to 53377

Telecom Operator forwards the query received from users, in different SMS formats specific to the channel (USSD / IVRS /SMS) used with their respective gateway. Further these gateways process the data and forwards to the MSDG gateway which applies the logic and then forward the data to the respective government directly. The department reply is sent back to the citizen through the same path.

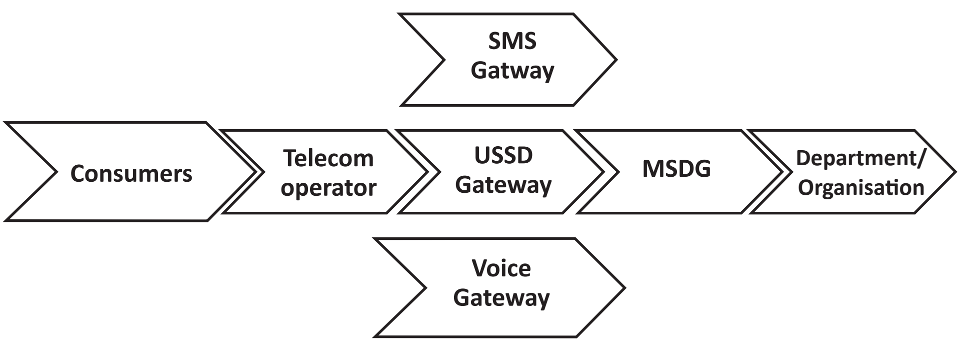


Fig. 2: Flow diagram for Pull SMS

WAP (Wireless Application Protocol): Wireless application protocol is a communications protocol used for wireless data access through mobile wireless networks. WAP enhances wireless specification interoperability and facilitates prompt connectivity between interactive wireless devices and the Internet.

USSD (Unstructured Supplementary Service Data): This service is normally used for mobile balance enquiry, tariff enquiry and activation etc. It is used to create a user friendly and interactive menu based and session based service application which largely supports the user of various services.

CBC (Cell Broadcast): This service is very helpful in case of pre and post emergency condition or when certain notification/alerts have to pass to the people in a particular region. Cell Broadcast is designed for simultaneous delivery to multiple users in a specified area. e.g. Earthquake Early Warning (Japan)

Internet/ Intranet/Wi-Fi / WLAN: It is a network of networks that consists of millions and billions of private, public, educational, business, and government networks of local to global scope, that are linked by a broad array of electronic, wireless, and optical networking technology. It carries a wide range of information resources and services, such as the HTTP and applications of the World Wide Web (WWW), electronic mail and peer-to-peer networks for file sharing.

m- Application: A mobile application is a user interface software application designed to run on mobile phones, smart phones, tablet, computers and other mobile communication devices. M-apps are fast, very interactive and most preferred mode for accessing a particular service provided through the app especially by and amongst young citizens of the country.

End user interface: End-user devices include mobile phones, smart phones, tablets, personal digital assistants (PDAs), and laptops with wireless infrastructure etc.

Content for mobile service: m-Governance will require development of separate mobile-ready content which is very exhaustive and suitable as per the requirement of potential user such as it may be in relevant local language with updated information.

Payment gateway: MSDG shall also incorporate an integrated mobile payment gateway to enable users to pay for the services electronically.

Attributes Of M - Governance

Affordable Tariffs: The cost of mobile phone technology is relatively low then laptops and PCs because of cut throat competition between mobile companies. Mobiles are inculcated with battery for the power source and hence can easily sustain in rural areas in the country.

Faster Information flow: the flow information is very fast as mobile phones distribution among whole population is gigantic. e.g. Festival wishes of Prime Minister/Chief Minister flow to lakhs and crore of peoples within few hours.

Remote access and local language: m-Governance is the only best way to serve remote and rural areas, where even basic amenities are difficult to build. The apps are generally in local language (e.g., in Hindi, Bengali, Telgu, Gujrati, etc.) to assure huge rate of acceptability of this technology.

Smart Phones and Apps: With a single click an app directly connects user with the broad array of information world. People on their Smartphone can access all kinds of services (IMPS, mobile banking, IRCTC services, social media, tracking services etc.) provided by public organization/ government with the help of a various featured apps.

Prompt Access: The biggest advantage of mobile devices is that they offer anywhere, anytime access facility to the users. The computer based system never includes such kind of facility.

Growth of Mobile Internet User

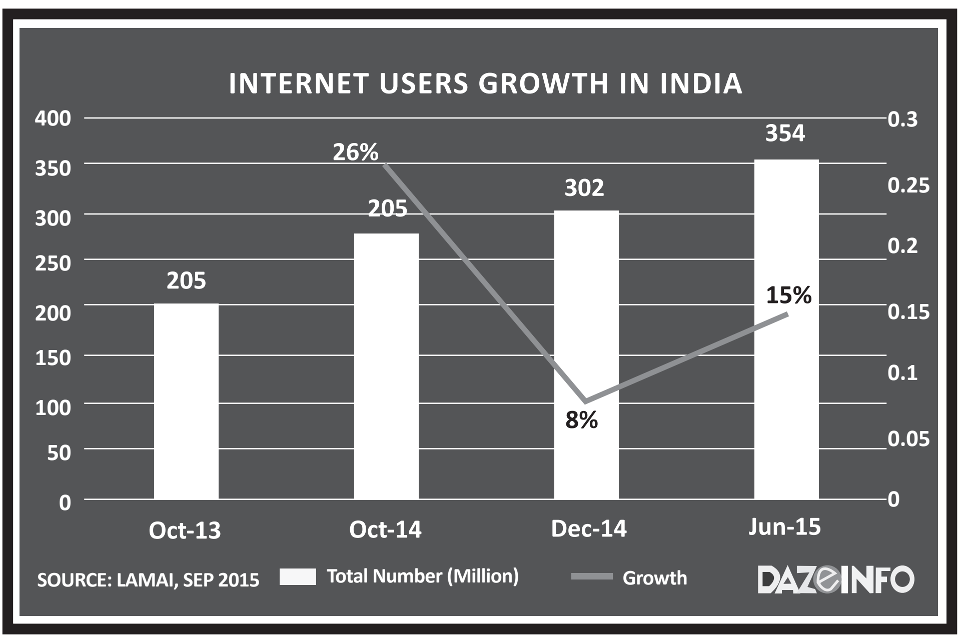


Fig. 3: Internet User Growth in India

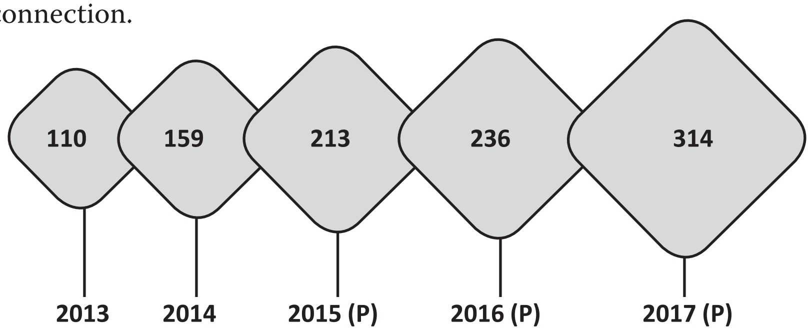
Nilotpal Chakravarti, Associate Vice President of IAMAI states that, "The advent of low-cost smart phones, coupled with low mobile tariffs, has empowered consumers in the hinterland to use data connectivity and we will be seeing more usage of internet from these areas in the months to come. Also, the increased internet usage will boost digital commerce in India"

According to the report published by the Internet and Mobile Association of India (IAMAI), the count of internet user reached 354 million by the end of June, 2015.

Initially growth rate of internet user was very slow in India due to poor infrastructure and technical illiteracy, it had taken approx. 10 years to move from 10 million to 100 million, but further on October 2013 it crossed the data of 200 million which was the sudden rise in the internet user base of India. In next 14 month, country added another 100 million new users and crossing 300 million user bases in December. 2014. It clearly indicates the tremendous growth of internet users in India. It was also reflected in the growth of other sectors like digital commerce, social media, and payments etc. The growth of e- commerce industry (Flipkart, Snapdeal, Amazon etc.) of India was also major growth factors of growth of internet user in India.

(a) Mobile Internet Users in India June 2015

The number of mobile internet users in India also grew from 173 million in December 2014 to 213 million users by the end of June 2015. In which 128 million belongs to the urban population and the rest 45 million reside in rural areas of the country. With the consideration of current rate of growth it is expected that the mobile internet users in India will grow up to 314 million by 2017. According to IAMAI- KPMG report 60% of internet users in India access the internet via their mobile phones now because of availability of Smartphone at cheaper rate. Another major factor is its mobility nature, User remain mobile with connection.



Source: Iamai-IMRB Mobile Internet in India 2014 report KPMG-Fico MSE industry report 2015

Fig.4 Mobile Internet User in India 2013-17(E) (in millions)

According to IAMAI, the use of local language content in mobile services is one of the major reasons for the growth of mobile internet usage in India. Due to this a large number of rural populations are also attracted towards development process. In June, 2015 the local language content users grew at a rate of 47% to 127 million. Apart from this, Indian mobile internet market penetration is very week. With 352 million internet user, India just has 27% market coverage and still back of China and USA which have locked 51% and 87% respectively.

CHALLENGES OF M-GOVERNANCE

- **Monetary challenge:** m-governance yet tends to be a further channel for e-governance; in that case it bears additional costs. Until this shift from e- governance to m-governance completes, cost fluctuation will remain constant such as mobile enabled website development, m-app creation and internet based mobile development are some major cost factors in the growth of m-Governance.
- **Technically illiterate:** Technical literacy again is a major issue in the success of m-Governance. The mobile user's technical knowledge about operation of internet and retrieving information and other services is the basic need for the m-Governance. But, there is a huge section of the population is technophobic and demoralizes the use of latest technology.
- **Infrastructural Support:** Availability of mobile phones to peoples, government budget for the development of m-Governance, the telecom network strength, mobile enabled application software etc. are the major concern in infrastructural development for m-Governance.
- **Trust/security:** if m-governance is used to m-payment systems or other monetary transactional public services, it must have good security and must be appreciated and trusted and also there are various personal information which are linked with mobile network. So, trusted and tested security system is to be linked with m-Governance.
- **Data Overload:** with increase in permanent mobile connectivity with internet, there is increase in circulation of messages and other data that creates blizzard of communication and data overload at network and mobile level.

SUGGESTION FOR SUCCESSFUL AND EFFECTIVE PROGRESS OF M -GOVERNANCE

- The success of m-Governance initiatives will ultimately depend on the level of participation of government, public and private sector such as telecom companies, VAS providers, IT companies, app developers, banks, etc.
- To enable secure financial transactions through mobile phones, the telecom service providers will have to be integrated with National Payment Corporation of India (NPCI) gateway.
- As the majority of citizens will have entry level phones, m-Governance programmes must aim to provide services through SMS, IVRS and USSD integration.
- Websites of all the government departments will have to be mobile compliant so that information dissemination is proper and effective.
- The services offered through this channel should be according to user need and preferences so as the consumers get attracted towards it and hence more and more participation and high mobile penetration can be assured.
- IT literacy is also one of the major issue in m-Governance, a major section of mobile users are still unfamiliar with technical skill such as online payment, mobile app operation, internet handling etc. so the interface should have training material in build with mobile app.
- For m-Government success in India, physical IT infrastructure such as networking, information processing system and delivering services, technology, mobile connectivity, ICT tools and equipments, department wise arrangements etc. everything should be at desired level.
- Consumers mistrust, data insecurity, unethical practices are the major issues in the success of m-Governance because during transaction over mobile, consumers sometime have to share its personal information, opinions and enquiries and even credit card details at the time of payment. To overcome this mistrust, a strong and effective information security system, secure online transactions and people's privacy is very essential factors for m-governance success.

- The success of m-Governance depends largely upon the number of its users. To increase consumer participation they are to be offered user friendly m-Governance interface. Possibly these applications must include video and audio communications.
- Relevant laws, regulations and standards must be adopted in case of mobile crimes.

CONCLUSIONS

The transformation needed for offering the services through mobile devices is very challenging, but through innovation the numerous challenges can be met. M-Governance can be a game-changer for improving the quality of governance in the country by creating an anchorage for increasing collaboration between citizens, government and businesses, by unlocking the potential of e-services for millions of citizens. M-Governance in India gave a better view of the public services through mobile devices technology. In India, there are many issues, challenges and ideas involves in applying m-Governance because it is still at introductory stage and need more improvement to get a better m-Governance. M-Governance is still in challenging phage in both management and technological aspects. The infrastructure for m-Governance should be updated to support the growth and development of m-Governance.

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17

E - Governance in Education System: Challenges in a New Innovation of Governance in India

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ABSTRACT

E-governance is an ideal which is difficult to achieve in its totality. This paper deals with the role of e-Governance in the education sector. Today the IT has become an integral part of life of the people in the world. It is the time to applying the skill for the betterment of Indian educational system as well. The country's education sector, particularly higher education, is often accused of being overly regulated and under governed. With science and technology evolving at such a rapid rate, the conventional classroom education we offer can hardly be described as sufficient. The researcher has tried to take the attention of government towards the use of technology and new innovations in the field of education through e-governance to make the system easy and approachable to all. The main objectives and challenges of e-governance are well explored by the researcher. This paper shows that e-governance has a key role to play in current and future development of education system. It can offer critical improvements to the efficiency and effectiveness of governance; and probably offers critical future legitimacy for government. The issue for government and ministry and department of education, therefore, is not 'if e-governance' but 'how e-governance'. The e-governance needs security for smooth information flow from the source to destination, best practice database and enhanced capacity for information analysis etc., the government should support by

enacting favorable legislations and updated amendments for maintaining standards in the educational process and improvements in the related field. It requires completely new infrastructure, procedures, policies, motivation and working skills for producing and collecting online information.

Key Terms: E-Governance, Governance, Education sector.

INTRODUCTION

Governance is not the exclusive preserve of the government. It extends to civil society and the private sector. It covers every institution and organization from family to the state and state to nation and nation to the globe. It involves exercise of political, economic and administrative authority to manage the affairs in the management of a country's economic and social resources for development. It can be better understood as, "the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences" (Saugata, B. and Masud, R. R. (2007). The 11th report of the *Second Administrative Reforms Commission*, entitled "Promoting e-governance - The Smart way forward", established the governments' position that an expansion in e-government is necessary in India (Second Administrative Reforms Commission Report). The ARC report was submitted to the GOI on 20 December 2008 (Second Administrative Reforms Commission Preface to the Report). The report cited several prior initiatives as source of its inspiration including reference to the Singapore ONE programme. To pursue this goal, the National e-Governance Plan was formulated by the Department of Information Technology (DIT) and Department of Administrative Reforms & Public Grievances (DAR&PG) (Department of Information Technology, Ministry of Communications & IT, India). The program required the development of new applications to allow citizen access to government service through *Common Service Centers*; it aims to both reduce government costs and make access to services easier (India Development Gateway). To assist the government the NISG (a non-profit organisation) started a portal project called e-Gov Knowledge e-Xchange (e-Gov Knowledge e-Xchange).

MEANING OF E-GOVERNANCE

The word 'electronic' in the term e-governance implies technology driven governance. E-governance is the application of Information and Communication Technology (ICT) for delivering government services, exchange of information communication transactions, integration of various stand-alone systems and services between Government-to-Citizens (G2C), Government-to-Business

(G2B), Government-to-Government (G2G) as well as back office processes and interactions within the entire government frame work (Saugata, B., and Masud, R, R., 2007). Through the e-governance, the government services will be made available to the citizens in a convenient, efficient and transparent manner. The three main target groups that can be distinguished in governance concepts are government, citizens and businesses/interest groups. In e-governance there are no distinct boundaries (Garson, D. G., 2006). E-Government i.e. Electronic Government is the use of Information and Communications Technology (ICT) to run or carry on the business of the government of a country. However the term E-government is misleading, as it implies an electronic substitute for the physical government. Electronic substitution of a government is not possible as government is a unit of people coming together to administer a country.

A government is a group of people responsible for the administration and control of a country/State. It involves people like the heads of states, ministers, government employees, etc. It also involves public participation. So, electronic substitution for a government is not possible. Therefore, E-government may only refer to a government using in conducting its business (indiaegovernance.blogspot.in).

It is a collaborative effort to collect, develop and share knowledge and material on e-governance initiatives across the different government agencies, state government, union government and private institutions of India. The objective is collective learning from each others' projects and learning lessons. Like other collaborative portals, content development is shared by stakeholders of e-governance: the Department of Information Technology (Government of India), Central Ministries & State Governments in India, academics, and industry working in the domain of e-government. This portal aims to develop knowledge about e-governance domain from public, private and government levels.

E-GOVERNANCE IN EDUCATION

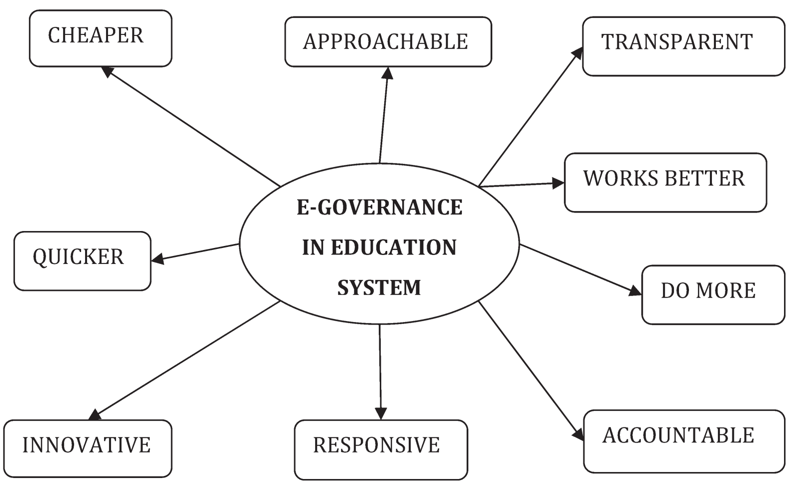
Although the concept of effective school governance is not new, it needs to be thoroughly innovated to be able to effectively deal with the new challenges confronting us. In this context, e-governance can facilitate in improving transparency, providing speedy information, dissemination, improving administrative efficiency and public services in all the aspects of education.

It is beyond doubt that for the quantity and quality of output of our education system to substantially improve, there is no option but to introduce e-governance in this sphere. Although, the application of ICT is fairly widespread in the private sector, the education sector is one of the key pillars of the country, has remained relatively untouched by e-governance.

Before delving into e-governance, the first step should be to define governance and lay down its scope and objectives. The age-old concept of governance has been reintroduced into modern discourse, focusing on how to achieve good governance. Good governance is the ability to differentiate between right and wrong, just and unjust, fair and foul, and moral and immoral (TNN, 2011).

The Fig. 1 shows the properties of e-governance in the education system. It is the cheaper system of conveying and receiving the information from Government/Institute/University to student, student to Government/Institute/University and to the other channels also.

The process of e-governance does more work in less time and works better. Hence, it is quicker system of governance. It is approachable, accountable and responsive towards the authority and students. E-governance is purely transparent as all the information is freely available and directly accessible to those who affect by decisions and their enforcement. New innovations and use of new technology and methodology in the working is the main part of the system. It is clear that is the best and easy system of governance.



SCOPE OF E-GOVERNANCE IN EDUCATION SECTOR

Governance is all about flow of information between the Government and Institutes/Universities, Institutes/Universities and Students Institutes/Universities to Placement agencies and Government and Government. E-Governance also covers all these relationships as follows:

- Government to Institutes/Universities
- Institutes/Universities to Government
- Government Institutes/Universities to Students
- Students to Government Institutes/Universities
- Government to Government

OBJECTIVES OF E-GOVERNANCE IN THE EDUCATION SECTOR

The following are the objectives/aims of E-Governance in the education sector:

1. **To Build an informed Student Society** – An informed student society is an empowered society of the education sector. Only informed and well aware students can make Governance responsible. So providing access to all the every piece of information of the Government and of student importance is one of the basic objectives of E-Governance in the education sector.
2. **To Increase Government and Student Interaction** - In the physical world, the government and students hardly interact. The amount of feedback from and to the students is very negligible. E-governance aims at build a feedback framework, to get feedback from the students and to make the Government aware of students' problems so that these can be resolved without any delay.
3. **To Encourage Students' Participation** – The education sector requires participation of each and every individual student. E-governance aims to encourage the students' participation in the governing process, by improving the feedback, access to information and overall participation of the students in the decision making. It also aims to help the government to take the decision as per current research findings.
4. **To Bring Transparency in the Governing Process** - E-governance carries an objective to make the governing process transparent by making all the government data and information available to the students and public for access. It is to make students, teachers and the parents to know the decisions, and policies of the government in the education sector.
5. **To Make the Government Accountable** - Government is responsible and answerable for every act decision taken by it. E-governance in the education sector aims and will help to make the government

more accountable than now by bringing transparency's and making the students and teachers more informed.

6. **To Reduce the Cost of Governance** - E-governance also aims to reduce cost of governance by cutting down on expenditure on physical delivery of information and services to each institution/ University/student. It aims to do this by cutting down on stationary, which amounts to the most of the government's expenditure. It also does away with the physical communication thereby reducing the time required for communication while reducing cost. It also aims to deliver the required information of the admissions, entrance tests, examination roll numbers/results etc. in the minimum time.
7. **To Reduce the Reaction Time of the Government**: Normally due to red-tapism and other reasons, the government takes long to reply to students' and teachers' queries and problems. E-governance aims to reduce the reaction time of the government to the students' and teachers' queries and problems, because problems are basically government's problems as government is for the people. (indiaegovernance.blogspot.in).
8. **To Make All Information Available Online**: The government has to publish all the information online through websites of elementary education, secondary education, higher education and technical and vocational education etc. this can be facilitated through centralized storage of information, localization of content and content management. The target group is entitled to visit the websites and find the required information all the time.

Challenges of E-Governance: The e-governance is facing the following challenges-

Lack of E-Readiness for e-Governance: Lack of e-readiness contributes to both lack of and failure of e-governance initiatives. The key questions can be asked of developing country governments in order to assess how strategically prepared they are for e-governance.

Organizational Issues like

- Redefining rules and procedures
- Information transparency
- Legal issues
- Infrastructure, Skill and awareness

- Access to right information
- Interdepartmental collaboration
- Tendency to resist the change in work culture (it.iitb.ac.in).

Other obstacles are geographical distances, lack of trained human resources, and lack of ICT penetration in remote areas. For instance, a good e-governance application will not benefit anybody in remote areas if there is no supporting infrastructure such as electricity, computers and connectivity. Many pilots have been successfully implemented in almost all areas of e-governance, but, say Ravi Kant, "Rather than having an obsession to undertake pilot projects, we should capitalize on the existing successful examples in the country and customize them for our use."

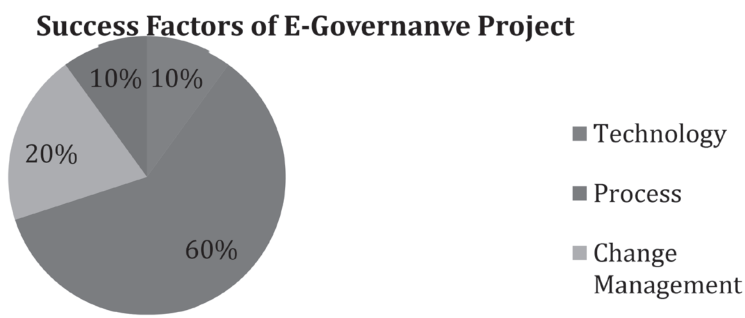
Challenge of Connectivity and Interconnectivity: The challenges of connectivity have also reduced over the years with the falling prices of bandwidth and increased reach of connectivity service providers. Major VSAT service providers already have established large footprints in India, and telecom service providers have stepped up their leased line offerings even in previously unrepresented territories. Many state governments have developed state wide area networks (SWANs), customized applications, and data banks. But the interconnectivity of the servers is an issue which calls for the establishment of state data centre. The NIC, which is promoting e-governance in the country, has established VSAT connectivity in all the districts of the country. There remains however issues such as standardization, inter-operability, security, and propriety vs. open source.

The other set of challenges lie in extending the reach of e-Governance services to 70% of Indian population that lives in villages. These include:

- Assessment of local needs and customizing e-Governance solutions to meet those needs
- Connectivity
- Content (local content based on local language)
- Building Human Capacities
- e-Commerce
- Sustainability
- Lack of Integrated Services

Lack of Integration: Most of the e-governance services being offered by state or central governments are not integrated. This can mainly be attributed to lack of communication between different departments. So the information that resides with one department has no or very little meaning to some other department of government.

- **Lack of Key Persons**: e-governance projects lack key persons, not only from technological aspect, but from other aspects as well.
- **Population**: This is probably the biggest challenge. Apart from being an asset to the country it offers some unique issues, an important one being establishing person identities. There is no unique identity of a person in India. Apart from this, measuring the population, keeping the database of all Indian nationals (& keeping it updated) is some other related challenges.
- **Different Languages**: A challenge due to the diversity of the country. It enforces need to do governance (upto certain level), in local languages. Ensuring e-governance in local language is a big task to achieve. According to an officer from NIC (it.iitb.ac.in), success factors of e-gov projects shown in Fig. 2:
  - ➢ 10% Technology
  - ➢ 60% Process
  - ➢ 20% Change Management
  - ➢ 10% Motivation



Thus, it is clear that the e-governance needs security for smooth information flow from the source to destination, best practice database and enhanced capacity for information analysis etc., the government should support by enacting favorable legislations and updated amendments for maintaining standards in the educational process and improvements in the related field. It requires completely new infrastructure, procedures, policies and working skills for producing and collecting online information. With the advent of ICT, electronic governance is an emerging trend to re-invent the way the government works, becoming a new model of governance.

CONCLUSION

It is clear from the paper that the e-governance needs security for smooth information flow, best practice database and enhanced capacity for information analysis etc, government should support by enacting favorable legislations and updated amendments for maintaining standards in the educational process and improvements in the related field. It requires completely new infrastructure, procedures, policies and working skills for producing and collecting online information. Kumar, S. (2014) is of the view that with the advent of ICT, electronic governance is an emerging trend to re-invent the way the government works, becoming a new model of governance. Such a comprehensive and integrated system can also enable authorities to analyze the performance of one of the best performing institutes and compare it with other schools and colleges to identify the gaps.

From the above discussion it can be inferred that e-governance is an ideal which is difficult to achieve in its totality but efforts can be made from the side of the government and concerned ministry and department. Very few countries and societies have come close to achieving e-governance in education system in its totality. However, to ensure sustainable human development, actions must be taken to work towards this ideal with the aim of making it a reality. Since a country's social and economic progress hinges largely on its people having access to the vast area of knowledge gained through modern channels of learning, it is important to ensure that education sector keeps up with the times, in other words, it is evolving. However, the country's education sector, particularly higher education, is often accused of being overly regulated and under governed. With science and technology evolving at such a rapid rate, the conventional classroom education system should be modernized by the effective steps to be taken through e-governance. 'Education system can fully equip our children to meet the ever evolving demands in today's highly-competitive environment; the education system needs to be made more efficient and effective by implementing e-governance. It is high time our educators think in terms of imparting what is known as life-long education, or, more aptly, life-long self-education' (K. Ashok, 2012). This paper shows that e-governance has a key role to play in current and future development of education system. It can offer critical improvements to the efficiency and effectiveness of governance; and probably offers critical future legitimacy for government. The issue for government and ministry and department of education, therefore, is not 'if e-governance' but 'how e-governance'.

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chapter 18

Business Ethics: Backbone of the Organizations

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ABSTRACT

Ethics is the basis for all the organizations to grow and earn profits. It helps to distinguish between the right and wrong. The ethical business manager has to follow the standards for taking the ethical decisions. The decisions involve the employees, the share holders, stakeholders, customers. Social circumstances make it easy or difficult to make ethical decisions. Responsibility for the circumstances can encourage ethical behavior and discourage unethical behavior in the business organization. A good decision taken by the ethical manager gives him a feeling of pride and he can influence his team mates to follow the same ethics. In this paper the steps for the ethical decisions are studied wherein the problems are understood, the facts are studied and decisions are taken that would be ethical without any personal gains. The circumstances are also studied that if ethics are followed the company will gain the maximum profit with best reputation in the market. Finally the principles are studied that will increase the ethics in the company. Ethics is the backbone of the organization without it is difficult for the organization to survive.

Keywords: Ethics, Organizations, Profits, Decision, Reputation.

INTRODUCTION

Ethics is considered to be the line of demarcation between the right and the wrong. These principles define the behavior as right, good and proper. It is concerned as to how a person should behave in his life and in working in the businesses and organizations. Ethics is the putting the principles into action. It is our honesty and truthfulness that can create a link between what we think and what we perform. An ethical person tries to do more than the law requires and less than the law allows. This gives him a feeling of self esteem, admiration and love from his fellow beings. The characteristics like trustworthiness, respect, responsibility, fairness, and caring nature are the standards of the conduct that help in the ethical decision making. For the decisions to be taken carefully one must be able to understand the alternatives and to choose the best alternative. In simple situations we can go with our feelings but in the complex situations we should have more cautious approach towards it. The decisions should not cause any harm to the individual or anyone. It should not come in the way of achieving goals. In times of crisis and confusion ethics in the workplace helps the managers to cope with the situation and the decisions are more socially responsible rather than by a profit seeking motive. The people in the organizations follow ethics as their part and parcel. It is a part of decision making at all the functional areas. It involves the individual and the organizations policies. The ethical approach should always be problem solving after identifying and understanding the issues. Ethical dilemmas crop up in the various functional areas of the business.

REVIEW OF LITERATURE

The six main factors for moral reasoning and behavior are moral imagination, wherein the there is an ethical dimension for daily choices and relationships. The second is moral identification and ordering, refers to the identification of the issues that should be given the priority. The third factor is moral evaluation of the various choices using analytical skills. The fourth element is tolerating moral disagreement and ambiguity, which arises when managers disagree about values and courses of action. The fifth is the ability to integrate managerial competence with moral competence .The sixth factor is moral obligation which results in taking right decision (Charles Powers and David Vogel, 1980). Moral emotions are part of our makeup as humans paying attention to our emotions can be an important clue that we are faced with an ethical dilemma (Kohlberg, L. A. ,1984, Harper & Row; Kohlberg, L. A.,1986). Studies that have explored the link between ethical theories and ethical decision making usually focus on the ethical reasoning or justification that individuals use to explain their decisions and actions in morally challenging situations. These reasons are assumed to be derived from various ethical theories that differ in the basic criteria used for moral reasoning (Victor & Cullen, 1988). Ethical or unethical behavior and judgment usually occur in situations that raise ethical considerations or issues. “An ethical issue is a problem, situation or opportunity requiring an individual or organization to choose among several actions that must be evaluated as right or wrong, ethical or unethical" (Ferrell & Fraedrich, 1991). Situations that are ambiguous and uncertain elicit a process of sense making and issue construction through which people frame the situation and create rational accounts that enable them to take action (Weick, 1995). Business ethics is a specialized branch of ethics focusing on how moral standards apply to business organizations and behavior (Velasques, 1998). The fact that many individuals apparently seem to conduct unethical actions in ways they are unaware of, as many of them, after having acted unethically, often mention that they are not bad people (Bazerman and Banaji 2004; Boozer 2002). Only a few qualitative researches in business ethics focus on the unique content of business ethical decisions (Lahdesmaki, 2005) or discusses the relevance of ethical theories to decisions regarding different management practices (Schumann, 2001; Shultz & Brender Ilan, 2004). Ethical issues may be problematic because they are nontraditional: they have not been encountered in the past and do not easily fit into well-used categorization schemes (Clegg et al., 2006). The focus on classifying individual ethical decision frameworks reveal that formalism and utilitarianism represent distinct approaches to ethical problem solving, and that different situations can elicit a different ethical decision framework, formalistic or utilitarian, to varying degrees (Alder et al., 2008). It has been suggested that cultural environment and industry environment also affect the process of decision making (Hunt & Vitell, 1986; Weber & Wasieleski, 2001; McDevitt, 2007). The very essence of ethics is being true to oneself and authentic (Plinio, 2009). The current climate of organizations is skeptical regarding ethics. In a qualitative study it was discovered that sixty-six per cent of people question if ethics within leadership even exists. The study found that the biggest problem in organizations and individuals today is a lack of trust (Darcy, 2010). Enron caused harm to thousands of employees, invoked greater government regulation, and crippled consumer confidence of the financial industry (Thompson, 2010).

RESEARCH OBJECTIVES

1. To study the steps for ethical decision making.
2. To study the circumstances important for the business ethics.
3. To understand the principles that forms the ethics of the business.

RESEARCH METHODOLOGY

The data is collected from the secondary sources which are collected from the various sources like journals, magazines and data from the various ethical organizations.

Steps for Making Ethical Decisions

Spotting the problem: The first and foremost thing is to identify the problem existing in the organization and the reasons for the conflicts should be known.

Recognizing the Feelings

The feelings should come from the gut it can be accurate as the people use their instincts. These feelings come through time, experience and evolution. The decisions taken should be impartial and should be ethical whatever the case be.

Accumulate the Facts

The facts should be accumulated from the basic terms, assumptions, discuss the problems with the management, get the viewpoints from the several leaders and employees in the organization. The other issues to be considered are the corporate governance, partnerships, resources, employee retention.

Determining the Alternatives and the Value

The alternatives have to be studied with the related problem and their consequences should be understood. The value like human dignity, compassion, achievement given to the persons should be true and must be observed that they don't bring in conflicts. These values must balance the decisions.

Implementation of the Plan

The decision should be communicated to the individuals properly, the documents should be processed and the action should be taken accordingly.

Circumstances that are Important for the Business Ethics

Ethics result in programs, policies and decisions for the business which affects the reputation, productivity of the business, morale and loyalty of workers.

Deep Rooted Growth

The organisations try to achieve their goals making high profits but high risks are involved with it. The pertaining bankruptcy has made the organisations unable to plan for the long term. Organisations are recognising that stable profits are a better bet in the long run than large profits. It is on the long term which we must focus to avoid the blindness which leads to such huge corporate collapses as Lehman Brothers (2008).The business ethics have the potential to drive real change. It has made the markets to shift towards ethical products. Unethical behaviour is not a long-term strategy. It may be covered up in the short term but when they are discovered, stock prices, the image and performance of the company diminishes. By promoting ethics the managers and employees create long-term investment corporate success.

Employee Retention

Poor ethics in the workplace have distracted a lot of employees and they impact company success when employees are unable to focus on their work. If proper ethics persists employees stay longer and produce better results. Unethical companies have a difficult time retaining workers.

Cost and Risk Reduction

An owner can run his business with his money at risk along with his stakeholders, employees, share holders and trading partners. Ethics should result in the trust and the loyalty among the members of the organisation which would increase the effectiveness and efficiency. Ethical policies spend much less on protecting itself against fraud and industrial relations. This would create transparency within the business.

Public Sentiments

The public sentiments cannot be ignored. If the company is only interested to have profits without any betterment for the society it will result in the negative feelings from their customers. The costumers will have a thought that whatever the company is attaining is because of the unethical practices that are followed within the organization.

Finite Resources

The business ethics have to work with the limited resources available in the planet wherein the usage should be minimized and the reuse should be maximized. If all the operations are done ethically then the company's objectives can be achieved.

PRINCIPLES THAT FORM THE ETHICS OF THE BUSINESS

Morals

Honest business practices inspire staff and customers to build foundations of trust with colleagues, competitors, staff, and customers. When employers deal honestly with their staff, employees are motivated to work hard for the company. Investors express confidence by funding the company and consumer confidence is positive. A business owner can apply honesty in every situation that would earn him reputation in the market.

Righteousness

Personal righteousness is maintained if a person is ethical in running the business. The trust is maintained between all the members in the organization. A consistent behavior for taking decisions is required for the development of the organization. Although a great pressure of making decisions is on the managers, ethical business managers follow a moral code, principles to maintain their decisions.

Assurance

Assurance is a commitment given by the managers to the people internally and externally. The trust created will bring in more business activities. The promises should not change whatever situation happens.

Faithful

Faithfulness should be for organisation, fellow colleagues and for youself while running the organization. It will create high value on the interests of the company. Independent judgment should be taken but should never use information for self interest. If you ever decide to leave your company do it on the best of terms and never take advantage of a previous position.

Equitable

The actions must be equitable and they must employ justice. The leader should not take unfair advantage of other person's mistakes but instead must treat the people equally to gain competitive edge. When taking decisions the leader should be open minded and rationale to take decisions and admit his mistakes.

Caring

An ethical leader should be caring for both the customers and the staff to reach their goals. If care is taken emotionally and financially the employees will work hard for the company's image.

Consideration

Being ethical means treating everyone with respect giving equal treatment to people. Everyone serves dignity and believes treat others the way you would like to be treated.

Follow Rules

An ethical executive always obeys the rules and regulations and should never break laws surrounding their business activities.

Being a Leader

The leader should be positive so that the team will be positive always. The principles and ethics the team should follow should be initiated by the leader. The environment of the business made on principles and standards of ethics will benefit the organization.

CONCLUSION

In the world of business ethics are to be followed. These are the principles, values, and standards that guide the individuals, to work systematically. Principles are specific and the basis for rules. Values can be socially enforced. All the members of the organization internally or externally are responsible for the ethical decisions to be taken within the company. Ethics have started gaining a lot more importance as it is becoming a link between the organizations performance and the profits. This is also increasing the brand image, reputation of the organization. Ethics in business increases efficiency in daily operations, greater employee commitment, increased investor willingness to entrust funds, improved customer trust and satisfaction, and better financial performance. The ethics result in high performance of the business, high retention of the employees as they would work hard for achieving the goals, the extra costs are cut down, the public sentiments are taken into consideration and utilization of the proper resources should be done. In order to take proper decisions the principles should be set, the facts should be collected, analyzed, taking views of other people the decisions should be taken. The ethical manager should be have personal integrity, should be loyal, caring, follow the rules and regulations. Unethical activity in business needs a better understanding of the factors that contribute to ethical decisions. Ethics is the strong pillar required for the organization to prosper in present and in future

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chapter 19

Business Ethics in Agro-Based Units in Varanasi: Challenges & Opportunities

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ABSTRACT

India is having one of the oldest religions of the world, Hinduism, in its vein. The said religion is procuring & leading the followers from the last 3000-4000 years. Every religion present in the country is a symbol of ethics & morality. But then too, the country is having huge chaos on the matter of application of ethics in business. The studied city Varanasi is having huge historical background, though facing ethical challenges. The major reason behind this is lack of information & awareness of business ethics. A stream of respondent was feeling uncomfortable while responding towards the ethical issues, as they might think business ethics as social service. The study targeted to the representatives of agro-based units in Varanasi through interview method. In this *"E-era"* the need of business ethics is becoming useful in all the areas. It has been found that the respondent have financial, marketing, HRM, production & other ethical issues. Out of which marketing & production issues were major. The remedial measures conclude with the following of rules & regulation & application of ethics in business. Following business ethics will enhance the social image, goodwill & market share of the related units.

Keywords: Ethics & Morality, Awareness, E-era, Interview method, Social image.

INTRODUCTION

In this 'electronic era (e-era)', business ethics has become a source for success in any business activity, either manufacturing, trading, services, etc. Due to huge & complicated scams & various unethical situations, the need for such things has become very peculiar. The agro-based units include those units which are using agricultural products as their chief raw material. Basically, these are more prone to become food processing units in general language. Though the Indian economy is agricultural based but the need of systematic set up of such industries has become very tough job.

In the city Varanasi, the historical background is much stronger than its industrial background, especially agro-based units. The city is popular for its heritage quality including ghats, temples, monuments, spirituality etc. If we trace the pages of history, we will find that the most popular products produced in Varanasi were Banarasi Silk Sarees, which itself is searching for its sustainment. Handloom works, crafts, etc. were popular but are ruining due to various reasons. In the present LPG & 'e-era', the need has become for following business ethics in every field of business & profession. Past experience in the aspect of business ethics is very poor. There was a debate on "whether business ethics or profit motive".

Reaping above the mentality, the need has become for enhancing the application of business ethics in agro-based units in Varanasi. The present study will help in assessing the practical problem faced by these agro-based units & the measures to overcome the same.

LITERATURE REVIEW

Various books, journal, research papers, etc. could be found in the related study. Some books of business ethics acts as a base of the study. Some of the prominent works done in the related field are mentioned below.

Published data of District Industries Centre (DIC), Varanasi has helped a lot in attaining objectives. The data published by DIC was used & analyzed for the purpose of study. An appropriate source was searched from where these data could be easily available to the entrepreneurs. For this the option of RTI was opened by DIC. These data were gathered after proper tabulation & classification by DIC & MSME-DI.

In his book, P. Kotler, the base of marketing management is explained thoroughly, with the context of South Asia. Elements of marketing are elaborated in detail, which has helped in understanding the topic. Schiffman, in his book has explained various forms of consumer behaviour & has helped in knowing something extra about the consumer behaviour. The relevance of consumer behaviour to the business has been explained in the book.

R.P. Kachru in his research paper had explained the status, growth & prospects of agro-processing industries in India. The study was highly backed by secondary data & gains massive popularity. B. A. Iqbal, in his study the performance & prospects of the agro-based industries was covered. It has given various suggestions to improve the condition of these units in India.

P. Gite, in her research thesis, detailed information about the marketing practices of agro-processing industries, their problems, prospects & other related things were mentioned. The data was taken for 15 years & information was processed thereby. A. Singh, in her thesis had used the primary as well as secondary data. Primary data was used in bulk which was collected from the various sources especially 99 SSIs present in Varanasi. The thesis was submitted in 2010 hence data collected up to that year interprets the condition of SSIs.

B. Banerjee, in his thesis the problems of industrial sickness faced by the industries in Varanasi was focused. The study was highly backed by primary data. The study gives reason behind the industrial sickness; among them marketing was one. A. Upadhyaya's thesis has given a base for studying the concept of industries engaged in agro-processing activities. This has helped in knowing the ways to carry on the paper.

OBJECTIVES

- To evaluate the present status of agro-based units in Varanasi.
- To enumerate the challenges faced by such units in the field of business ethics.
- To enumerate the opportunities for such units in the same field.
- To analyse the situation of opportunities & challenges in the same field.

RESEARCH METHODOLOGY

The present study is related to the business ethics in agro-based units in Varanasi. The study comprises both primary & secondary data. Secondary data is taken from District Industries Centre (DIC) while the primary data is taken from the representative of agro-based units in Varanasi. There are 237 registered agro-based units up to 2013-14. A research design comprises a target sample size of 20%, i.e. 47, of the population. Out of 47 sample size 39 such units were interested in giving information. The data was collected through interview method & the sampling was non-probability convenience sampling method.

The collected data was processed & classified into various tables, charts, etc. relevant statistical tools were taken in completing the work.

AGRO-BASED UNITS IN VARANASI

There are 7033 registered units in total out of which only 237 units are agro-based in Varanasi. The situation would be clearer with the help of table 1 given below-

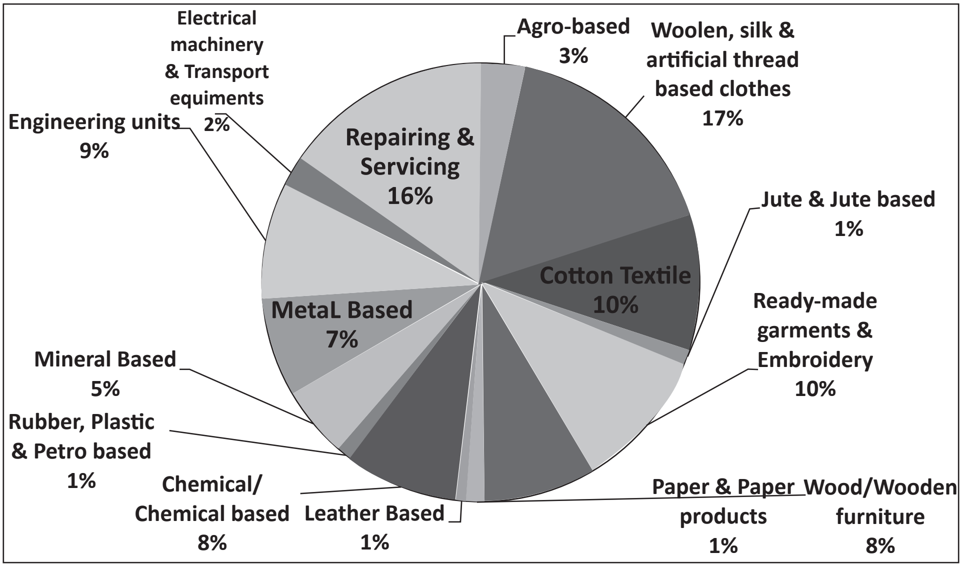
Table 1: Industry-wise segmentation of the Registered Units in Varanasi

Nic Code No.	Type Of Industry	Number Of Units	Investment (Crore Rs.)	Employment
20	Agro based	227	22.6	906
22	Soda water	-	-	-
23	Cotton textile	715	71.01	3151
24.	Woolen, silk & artificial Thread based clothes.	1163	110.60	4926
25.	Jute & jute based	75	3.5	390
26.	Ready-made garments & embroidery	730	78.335	4601
27.	Wood/wooden based furniture	585	51.06	3526
28.	Paper & Paper products	90	29.40	581
29.	Leather based	55	15.30	206
31.	Chemical/Chemical based	580	38.30	3031
30.	Rubber, Plastic & Petro based	90	28.55	861
32.	Mineral based	360	23.20	2101
33.	Metal based (Steel Fab.)	515	33.15	2376
35.	Engineering units	610	48.10	3571
36.	Electrical machinery and transport equipment	140	620	1301
97.	Repairing & servicing	1098	138.58	5999
01.	Others	-	-	-
	Total	**7033**	**697.58**	**37527**

Source: DIC

From the table 1 it has been seen that there are 237 registered agro-based units out of 7033 total units. This amounts to 3.37% of the total units. The investment & employment level are 3.2% & 2.41% respectively of the total.

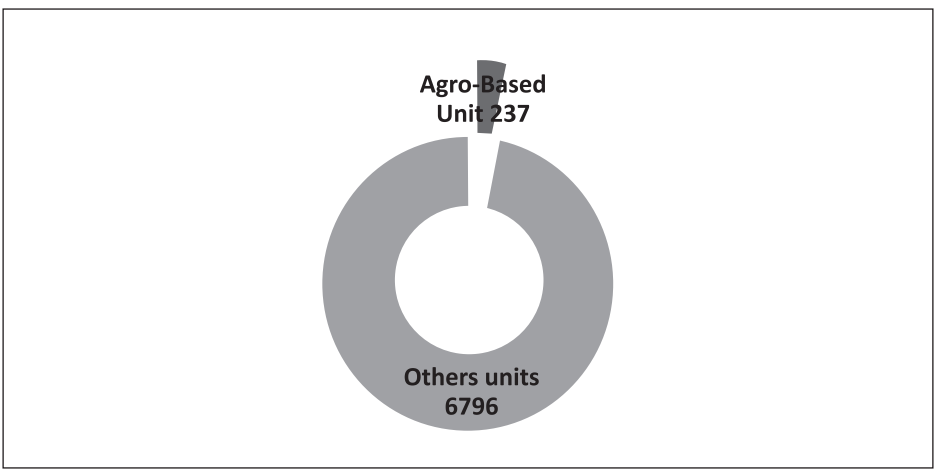
Fig. 1: Number of Registered Industrial Units in Varanasi (with share of agro-based units)*



**Made from the table value*

From the figure 1, it is seen that there is huge difference among the various registered units in Varanasi. The reason behind this is still sophisticated.

Fig. 2: Share of Agro-Based Units in total units*



**Made from the table value with absolute values*

From the figure 2, it is shown clearly that the share of agro-based units with the other units is very less. It amounts to 3.36% of total units registered in the city.

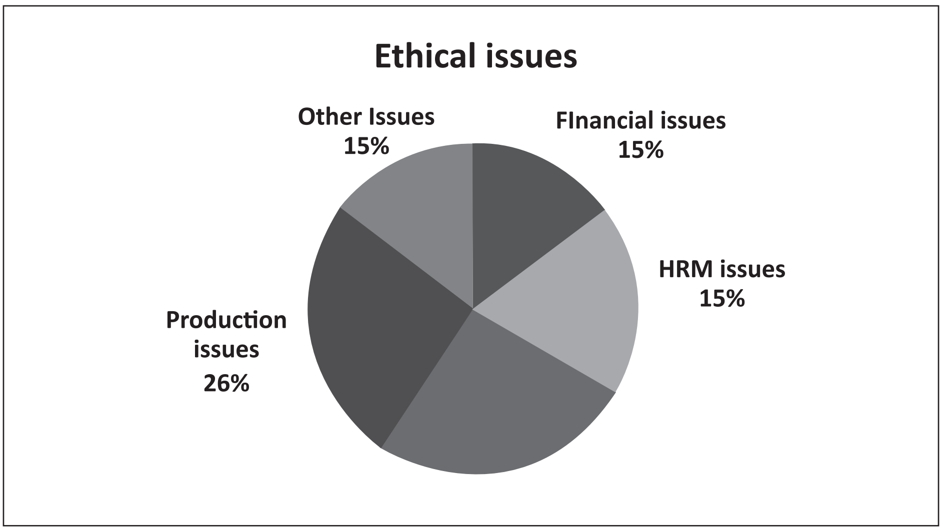
Table 2: Major ethical issues in Agro-based units

Ethical issues	Percentage Preferred
Financial issues	14.81
HRM issues	18.52
Marketing issues	25.93
Production issues	25.93
Other issues	14.81
Total	**100**

Source: Primary data n=39

From the table 2 it is seen that more than 25% of respondents have opinion that marketing & production issues are their major ethical challenges, as an agro-based units. Nearly 19% have opinion that HRM issues are their major ethical issues, whereas 14.81% says that financial & other ethical issues are their major problems.

Fig. 3: Major Ethical Issues in Agro-Based units (Diagrammatic Representation)*



**Made from the table value*

From the figure 3, it is seen clearly the percentage of major ethical issues in agro-based units in the city. It may be concluded that there isn't any large difference among the various ethical issues/challenges, all of them are affecting more or less equally.

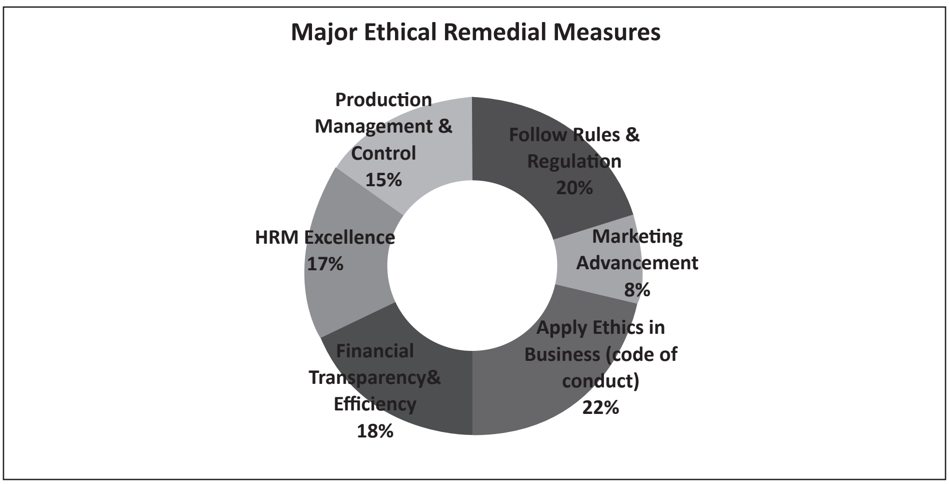
Table 3: Major remedial measure to overcome the challenges

Remedial measures	Percentage preferred
Follow rules & regulation	20
Marketing advancement	8.33
Apply ethics in business (code of conduct)	21.67
Financial transparency& efficiency	18.33
HRM excellence	16.67
Production management & control	15
Total	**100**

Source: Primary Data n=39

In the table 3, the major remedial measures which the respondents have preferred first while tackling the ethical challenges in their business are given properly. More than 21% of respondents have view of applying ethics in their business to remove various issues. While 20% were of view that if they follow the prevailing rules & regulation, the ethical challenges could be achieved.

Fig. 4: Diagrammatic Representation of Major Remedial Measures



**Made from table value*

The figure 4 states that the share of applying ethics in business (22% approx) is the major remedial measures while marketing advancement (8% approx) is the least preferred measures.

Ethical Challenges in Agro-Based Units

The following are the major ethical challenges faced by the agro-based units:

1. Financial Issues

The agro-based units in Varanasi are facing financial issues in their business. 14.81% of the respondents have ranked the financial issues as their major ethical challenge. Such issues includes insider trading, inappropriate investment of funds, delays in payments, illegal incoming of finance, window dressing, ineffective & inefficient management, etc.

2. Human Resource Management Issues

The approached units were also influenced by the problem of human resource & its management. 18.52% of respondents have their view that HRM is their major ethical issues. Such issues include employees' discrimination in recruitment etc, privacy issues, health & safety problem, training & development issues etc.

3. Production Issues

The approached units were influenced by the challenges of production issues. 25.93% of respondents have their view that production issues are their major ethical issues. Such issues include low product quality, adulteration, use of toxic products, lack of innovation & advancement, frequent expiry dates, storage & maintenance challenges, etc.

4. Marketing Issues

The agro-based units in Varanasi are facing marketing issues in their business. 25.93% of respondents have their view that marketing issues are their major ethical issues. Such marketing issues include charging more than MRP, skimming & penetrating pricing, market discrimination, too much middlemen, dumping strategy, pirated goods, hoarding & black marketing, advertising challenges, etc.

5. Other issues

In this type of ethical challenge, those areas are included which doesn't directly falls under the above four categories. The respondent (14.81%) viewed that apart from the above categories, they have other issues as their major ethical challenge. This category includes health issues, environmental degradation, child labour, unawareness of ethics & CSR, etc.

REMEDIAL MEASURES FOR OVERCOMING VARIOUS ETHICAL CHALLENGES

Following are the major remedial measures to overcome ethical challenges faced by Agro-Based Units in Varanasi -

1. **Following Rules & Regulations:** It has been found that 20% of

respondents are of view that if they follow the prevailing rules & regulation then they will tackle various ethical issues. The rules & regulation must be followed including COPRA Act, Factories Act, Companies Act, Competition Act, etc.

2. **Marketing Advancement:** The study reveals that only 8.33% of respondents have opinion that if they use advancement in their marketing practices their ethical challenges will be removed. Such remedial measures include advancement in policies of 4Ps viz. Product, price, place & promotion.
3. **Apply Ethics in Business:** Highest percent of respondents have opinion that if they apply ethics in their business, their challenges will be removed. This percent amount to 21.67% of the respondents. The same includes framing code of conduct, levying penalties upon unethical deeds, appointment of ethical advisor, etc.
4. **Financial Transparency & Efficiency:** The study reveals that 18.33% of respondents have opinion that if they use financial transparency & efficiency their ethical challenges will be removed. These measures include ethical use of finance, timely payments, disclosure, removal of window dressing, etc.
5. **HRM Excellence:** It has been found that 16.67% of respondents are of view that if they achieve HRM excellence then they will tackle various ethical issues. Such remedial measures includes suitable working hours, appropriate workplace, non-discrimination, proper superior-subordinates relationship, involving employees in decision making, etc.
6. **Production Management & Control:** In the present study it has been found that 15% of the respondents have view of achieving production excellence in the removal of various problems & challenges. In such measures some major tactics are maintaining product quality, use of advanced technological machineries; check over duplicate products, setting up standard of quality of the output & input, etc.

LIMITATION OF STUDY

The ethical challenges & remedial measures which are related to agro-based units in Varanasi, only those are considered. There are various opportunities which could be achieved if the ethics are applied properly in their business. The present study is a unique one & was not done in the past. Hence, it would be fruitful for all. But there may be certain areas which are not covered in the study.

It is mainly due to individual researcher's constraint & resource limitation. The study is highly depending upon the responses of the representative of such agro-based units & other secondary data which is received.

CONCLUSION

The study is done keeping in mind the various ethical problems which these units are facing in the recent past. The study is dependent upon the responses given by the respondents. It may be concluded that if these agro-based units apply business ethics in their units at various levels & departments, they will definitely increase their market share, goodwill & image among the consumers. The present era is highly dependent of public relation & social responsibility. What a unit is doing for its external & internal environment directly affects their market collection. When a consumer comes to know that the product which he/she is consuming is actually harming their health, though taste well, they use to discard that product. If any company is involving themselves in society building or other community development programs their followers & consumers enhances gradually. Every unit must appoint an ethical advisor who looks after the upcoming trend of ethics in the society & their own contribution to it. The advices of such advisor must be followed. Code of Conduct must be framed, communicated & followed strictly in the units. Whistle blowing system must be enhanced, timely training & development programs must be organised. Efficiency of the managers must be graded on the basis of contribution to the overall development of the units.

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chapter

20

Marketing Ethics & Social Responsibility – Reflections from Johnson & Johnson

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ABSTRACT

An interesting fact about the contemporary Indian businesses that most of the community does not mostly realize is that most of the businesses in India operating ethically most of the times. It is perhaps because we have formed a general perception that the businesses cannot operate and sustain under prevailing market conditions if they act ethically and hence emerges a misperception that most of the businessmen must be essentially unethical. The key rationale for such misperception in general public about business ethics is the ambiguity regarding the meaning of the word ethics itself. Statements such as *"I have a different set of ethics than yours"*; "How you perceive ethics depends on your view point"; "End justify means" are the catchphrases we often come across in the society nowadays, not only in small and medium sized businesses but even in the board rooms of large corporate houses. Hence it sounds fairly justified to say that we need to define ethics very clearly, understand how it is different from morals, before we advance towards evaluating the present Indian businesses for playing ethically fair or not. Refrains like 'Values have degraded;' Morals are shattered;' "Society has turned malodorous; "Corruption in civic life has reached to an outrageous magnitude;" can be observed frequently in newspaper headlines with exasperating regularity. It is appallingly surprising that in the recent years; even the business giants enlisted in Fortune 500 are

found indulged in some form of unethical behavior or other. Even the most reputed Indian companies too are not an exception and have been questioned on the grounds of unethical practices for time and again.

Keywords: Ethics, Marketing ethics, Ethical values, Unethical behavior, Responsible Marketing.

INTRODUCTION

In a consumer centric market economy, there exists perhaps no exception to the fact that the customer always is the undisputed 'king' because he is who decides what to produce, how to produce and by whom is it supposed to be produced since it is he who is going to finally consume the product. The wheel of consumer oriented economy rotates around the whims and fancies of none other than the 'king' of the market. Businesses that pay no heed to the needs, wants, demands and desires of their customers are sentenced to fade away into oblivion. Yet, the customers all across the nation are victimized by unethical business practices. What a paradox! The businesses are surprisingly plunging to new deeps of unethical practices in order to explore new possibilities to continuously raise the heaps of their bottom lines, by hooks or by crooks.

To quote a few most common examples of unethical behavior and derogating business practices even at the most grass root level, we come across the use of fat and other harmful products like pigments in the manufacturing of ghee that result in hazardous consequences for human health. Likewise, even the contamination of milk using water seems justified (despite of being highly unethical) when we come across the unethical, immoral and illegal production and sales of synthetic milk! The under invoicing of sales, engaging children under sixteen in perilous operations in the business organizations, unhygienic and risky working conditions still prevailing in various industries add to this list. The unethical business saga of Indian companies like Satyam and Maytas and multinationals such as the leading German automobile giant Volkswagen, scams such as common wealth games, coal gate and 2G/3G Scams that have unethical practices and corruption to a newer tangent of being immorally unethical, are all firmly embossed on the long term memory of Indian customers.

The examples cited above may seem magnanimous in size, yet they merely signify the tip of the huge iceberg of unethical practices that floats silently in the ocean of modern corporate world. Rather there are many other instances and examples of unethical issues arising as to what organizations executed or where they failed in their responsibilities. These problems have created unparalleled pressure on business to act more sensibly, in order to understand and respond to the ethical considerations. Although there are numerous exceptions as well to the unethical behavior from various Indian and global players like Johnson & Johnson, Wipro, TATA, Infosys, BHEL and many more, which are unanimously regarded high in terms of their commitment for ethics; still the situation is definitely alarming.

RESEARCH PROBLEM

We are all well aware that ethics are guidelines that direct good behavior. Hence behaving ethically definitely enjoys a close interrelationship with morality. However business ethics also has been an increasing concern among various companies across globe. Even the giant business organizations in every nooks and corners of the world definitely stay alarmed of the damage that can be caused potentially to their image due to media revelations of their unethical practices. In the recent years, we have seen that the marketers have continuously perceived the customers' preference for the companies that play ethical. This has resulted in the expropriation of ethics itself as a component of a corporate image. It is surprising that the companies have strategies such as 'Green washing' that is used effectively to make a company appear ethical even when it's practices are unethical. In this research, attempts are made to find the answer for the question of what is ethics in marketing i.e. which areas can be considered in marketing ethics. Further, unethical marketing practices and ethical standards are also explored.

RESEARCH METHODOLOGY

The methodology employed is descriptive to some extent as well as exploratory to a certain degree. It can be considered to be partially causal. Secondary sources of data are mostly used. The data and all relevant information for this study has been collected with the valuable assistance of various Books, Magazines, Research Articles, Newspapers, Research Journals and online resources etc. Data published by various institutions is also used for the objective of the present paper.

ETHICS - UNDERSTANDING THE CRUX

Ethics may be defined as a set or collection of principles of acceptable and justified behavior that shape the decisions of an individual or organizations. Being ethical and practicing ethics in marketing means intentionally applying the norms of sprite and fairness for decision making in the organization and acting socially responsible. In a market economy, a business may be expected to act in what it believes to be its own best interest but as a marketer, we need to remember that the prime intention of marketing is to gain a competitive edge by playing fair. After all, the soul of marketing rests in understanding the needs of your customers, being considerate to them, fulfilling those needs by means of your products thereby generating profits for the business. Most importantly, the entire process has to be ethical and moral.

However, it is quite interesting that different people give different meaning to business ethics. To be more specific, it is unanimously agreed that business ethics are codes of business conduct, by which the correctness of business activities is judged. Ethical principles are dictated by the society, governed by social values at large and they pervade vast social policies. These principles when understood and accepted, determine the propriety or impropriety of business activities. Business ethics also relate to the behavior of manager. It determines the responsibilities and ethical obligations of business professionals. Carter McNamara sums up: "Business ethics is generally coming to know what is right or wrong in the work place and doing what is right - this is in regard to effects of products/ services and in relationship with stakeholders."

When an organization behaves ethically, the customers tend to develop more positive notions and favorable attitude about the firm, its products, and its services thereby creating brand loyalty. When the marketing practices deviate from socially acceptable standards and righteousness, the market process becomes less efficient and more vulnerable. Inadequate or even no focus upon ethical marketing practices may lead consecutively to highly dissatisfied customers, lack of trust, poor word of mouth and hence the lost business, and even sometimes, a legal action. Therefore, most of the business organizations are highly responsive to the needs and opinions of their customers and keep continuously looking for various ways to protect their long-term interests with their invaluable customers.

ETHICS: A COMPREHENSIVE VIEWPOINT

As discussed previously, we know that different people have varied views and opinions about ethics. For instance, some believe it to be that is right, other few as what is rational; some other as what is justified and others as what is moral. The more the people, the more the opinions definitions defining ethics. Hence, we need to be more precise in defining ethics and its real meaning.

1. ***Ethics is not a Religion:*** Despite the fact that all people are not necessarily religious, it is conspicuous that ethics apply to everyone, may be a theist or an atheist. Nearly all the religions of the world do advocate high ethical standards but sometimes, it's a natural limitation that they do not deal with all types of problems faced by an individual or business.

2. ***Ethics is not Morality:*** Many people, including several thinkers and even philosophers consider the morality and ethics to be the same. But it is worth pondering that they are same in no way. Morality emphasizes first and foremost about making correct selections, whereas ethics is concerned with apposite reasoning and rationale.
3. ***Ethics is not Law:*** A fine system of law integrates numerous ethical standards, but it is quite common at times that law deviates from what is ethical. Law operates on the strong pillars of rationality and logic, most of the times apart from the sentiments. There also exists a probability that the law may become ethically corrupt, as in some totalitarian organizations. Law may lag behind in designing standards in some important areas, and even may be slow to address new problems. The ethics hence may not be clearly misunderstood as law.
4. ***Ethics is not Science:*** Although an in depth understanding of social sciences and natural sciences can provide a meaningful assistance in making superior ethical choices. Besides, Science may offer a rationalization for what humans are akin to but on a more important aspect, the ethics provide recommendations for how human beings ought to act. It should therefore be kept under consideration that just because something is scientifically possible, it is not necessary that it is ethical also.
5. ***Ethics is not a Sentiment:*** Sentiments, feelings and emotions can deliver significant and meaningful insights for ethical selections. For example, doing wrong for most of the people makes them feel bad, but some other may feel good even on the wrong and antisocial acts. For example, terrorists often regard themselves as liberators and radicals of religion and mankind but that definitely does not justifies their unlawful, immoral and antisocial acts.

ETHICS IN CONTEMPORARY INDIAN BUSINESS: AN OVERVIEW

The current business environment in India is characterized by the presence of four important socio-economical and political parameters. India has -

- **a.** World's largest democratic system, with independent judiciary and liberated press
- **b.** A free market, globalised and open economy with enthusiastic private sector
- **c.** Alleviation of entry and exit for businesses

d. A large number of actively functioning NGOs (voluntary non-government organizations for social causes)

Although India requires making several advancements in all of the parameters discussed above to become a truly appreciable nation, yet the circumstances today are much better than the period before 1991-1995. This is substantiated by the support of continuously high GDP growth rate ranging between 8.0 to 9.0 percent for the past several years. In such an unpredictable business environment, the question arises naturally that can any business really afford to act unethical? Let us have a close look over various demeanors of businesses with respect to diverse important stakeholders that support the survival, sustainability and growth of the business.

- **Customers** – A customer looks for at least the condition of "Value for Money" getting fulfilled. Giving more than the expected value, leads to the condition of customer delight. It is highly recommended that you promise no moons to your customers to ensure successful survival of the business. It must be remembered here that unethical behavior with the customers is a sure path to insolvency. The said rationale holds good for any business giving less value for money to its customers. For example, if a shopkeeper deceives his customers by giving home delivery of less than billed weight of the items, he will soon have to close his business.
- **Employees** - Unethical practices in staffing ultimately hurt the firm in the short, medium and long term! If any employer pays less to his employees in comparison to the industry standards, practices nepotism in the organization, acts unfair in promotion related policies and practices and so on; he will soon come across the fact that his business can neither recruit superior employees nor can it retain them.
- **Vendors** - Treating the suppliers in a whimsical an unpredictable manner or getting involved in favoritism or seeking unfair commissions from the vendors etc are the unethical practices that time and again spoil the image of the organization. The final outcome of such practices is inferior quality, more manufacturing defects or higher prices. All these factors mar the success of the business in the long run, eventually making the endurance intricate for the organization.
- **Banks** - The banks are backbone and financial supporters of any organization and they require having trust in the financial

dealings of the businesses they support. Even a little deviation from business ethics and morality may make their trust upon the business and management, vanish overnight! And it is evident that no business can survive when deprived of the much required financial support.

At a time that is tough enough i.e. at present, when businesses are toiling hard to retain their precious customer base from losing it to competition, it definitely makes sense to ponder upon how treating the customers poorly affects them and their purchase decision or does it affect them and their decisions at all? To be more specific, being a customer what do you articulate of a vendor who dilly-dallies in taking back a substandard product sold unethically to you, or denies to refund for the services promised but not rendered, or a company in pharmaceutical sector that introduces a new drug without complying with the guidelines of clinical trials? What are the repercussions of doing business without adhering to the business ethics? Is it only a cost merely to the customers who are at the receiving end?

The answer 'yes' may sound justified in the short run, but over a longer period of time, it will certainly harm such businesses in a typically commercial environment marked with the cut throat competition, where customers from diversified geographical regions are connected through powerful social media. Besides, it is also noteworthy that during the period of economic slowdown, dissatisfied customers abandon the unethical businesses earliest without a fail thereby making the survival of such businesses a hard nut to crack.

ETHICS IN MARKETING

Ethics in marketing is an anthology of doctrines of right conduct that shapes the decisions made by customers or organizations. Adhering strictly to ethics in marketing implies the application of the standards of equality or moral rights in decision making and marketing behavior in the organization deliberately. In a customer oriented economy like India, a business may naturally be expected to act in a way that it believes to be in its own best interest. However the intention of marketing is to create a competitive advantage. An organization can achieve this competitive advantage only when it performs better than its competitors in terms of satisfying the product and service requirements of its customers. Only the organizations that are able to satisfy the needs of their customers by sticking to ethical standards are able to gain this competitive edge thereby benefitting the organization. Since our economic system has proven excellent in providing for needs and wants, there has been increased focus on organizations' adhering to the ethical values rather than simply providing the market with the products.

This focus has come about primarily because when an organization behaves ethically, the customers build up added affirmative mind-set about the firm and its offerings.

Contrary to this, when marketing practices deviate from socially acceptable standards, the marketing process becomes less efficient - at times it even reaches a standstill. Lacking in ethical marketing practices may lead to satisfy customers, negative brand image, lack of trust, lost business, poor brand loyalty or sometimes even the legal action. Thus, most of the successful marketing organizations are truly responsive to the requirements, opinions and feedback of their customers.

ETHICAL STANDARDS AT JOHNSON & JOHNSON: SOME REFLECTIONS

Since its inception almost a century ago by three brothers, Johnson & Johnson has grown to a multinational firm with a whopping sales figure of more than $7 billion. The company operates 160 businesses in more than 50 countries. The hallmark of the organization is that it is managed with a long run view and Johnson & Johnson's "Our Credo" guides it business activities. Many of the phrases in the credo outline what the company interprets as its hierarchy of "goods" and how the organization shapes the values of its stakeholders. The credo was first incorporated in 1945 and has been revised twice since then. Upon the request of the chairman of Johnson & Johnson, James Burke, the credo was "challenged" in the 1970s. The exercise resulted in the reframing of a new credo in 1979 with minor paraphrasing of the previous Credo.

The company's responsiveness to the Tylenol poisonings of 1981 and 1984 are viewed by several observers as the type of responsible behavior all companies ought to exemplify. The recall of the Tylenol capsules was a result of the culture prevailing at Johnson & Johnson and an indicative about the company values. One senior executive expressed the firm's perspective upon the same very well when he said, "We never really thought we had much of a choice in the matter of the recall. Our code of conduct (credo) was such a way of life in the firm that our employees, including me, would have been scandalized had we taken another course. We never seriously considered avoiding the recall" (Nash 1988). Virtues such as courage, compassion, and lucidity, long operative in the organization, came to the foreground in the quandary over the Tylenol crisis.

A second illustration of Johnson & Johnson's honest corporate culture is found in the decision concerning with operations of the company in South Africa. After a careful moral analysis on the ethical dilemma, the company decided to uphold its plants and investment there. The stance of the company was noteworthy since several constituencies in the United Stated have demanded strongly for disinvestment in South Africa, but Johnson & Johnson disagreed on moral grounds and did not yield to the political pressure. Because of Johnson & Johnson's ethical corporate culture and long standing commitment to human values, their response has hardly ever been condemned, for the most part, even by those who hold an opposing position. Human strengths keep the argument about principles from taking a destructive track; humility, intellectual caution, and good faith are virtues that preserve a human community even while the dispute goes on.

The third example is related to a successful advertising campaign that was broadcasted on various media vehicles successfully more than a decade ago for Johnson & Johnson Baby Oil (Baby, Baby! Turn on the tan with Johnson's). It is noteworthy here that at that time there was a little concern about the harmful effects of the ultraviolet rays of the sun on the skin. The twist in the story was introduced when a medical associate of a Johnson & Johnson executive pointed out initial evidence that skin tanning might be harmful and that, since baby oil increases the rate of the burning and tanning process, the product could be indirectly harmful for babies. After further investigation in this context, the Johnson & Johnson executives found this was the case sounding valid and dropped the campaign, despite of its huge success. As the executive who made the decision stated, "It simply would be wrong to entice people to harm themselves" (Nash 1988).

To be sure, this was the principled action that brought to the force by the virtues of courage and integrity. The examples stated above with specific reference to exceptional ethical practices at Johnson and Johnson clearly convey how one company's behavior can be understood in the light of a theory of ethical virtue.

CONCLUSION

To sum up, the most incommodious ingredient in the recipe for better ethical behavior by marketers remains the force of will to always keep ethics at the heart of a company's objective. There is relentless pressure on individual organizations to maintain and perk up their bottom lines and to grow revenues. The nature of marketing management is to provide consumers with the goods and services they require by carefully undertaking the calculated risk that is rewarded with the financial returns. At least in the short run, the ethical operations can be harmful to the said profitability because they often include some economic cost. Keeping ethical marketing at the forefront of operations is an extremely challenging task given the continuous stress on the marketing managers to remain growing financially.

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chapter 21

Ethical Leadership in Universities & Research Institutes: An Exploratory Study

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ABSTRACT

Ethical leadership has received significant attention in recent years due to the excess of corporate scandals. The reason behind that is the failure of leadership to demonstrate ethical leadership and its negative impact on employee outcomes. Ethics and leadership has an important contribution to an organization and society. Ethics can be used to provide organization leaders with guidelines to aid them in their career role as to promote them as a good role model to their employees. Ethics play an important role in all aspects of life which means that it also plays a part in business. An ethical leader is one whose actions and influence processes are consistent with ethical and moral values. This paper identifies the imperative for ethical leadership and the manner in which it is manifested in universities and research organisations, and suggests an ethical leadership framework for the top and middle-level leaders in such organisations. The central argument of this paper is that the leader's own value system translates into the value system for the organisation and shapes the ethical attitudes of the employees and sets the ethical tone of the organisation. This paper is based on literature review and in-depth exploratory interviews with institutional leaders and departmental heads in three universities and

one research organisation. The first part of our ethical leadership framework includes the antecedents of ethical leadership, while the latter part incorporates the consequences of ethical leadership.

Keywords: Ethical leadership, Ethics, Moral values, Universities and Research organisation.

INTRODUCTION

In our society universities holds a high place. Since inception of higher education the university has been seen as place of higher ethical standards and morality. Universities seen as a higher education institution of learning, teaching and gaining knowledge, we place high value on rational thought, fairness, and principled behavior. In our society universities and research organization are built on moral obligations, ethical responsibilities and principled behavior. It is expected to encourage and promote ethical behavior in the actions of their leaders.

A Carnegie study reinforced this ideal, stating that "universities have taught and practiced moral and civic virtues through our national history, have sought to advance the truth and have been devoted to public service. Their members often have served as the conscience of the nation. The academic virtues are a model for the conduct of society at large."

The institutional leaders not only provide academic and administrative leadership for the institution, but also serve as an ethical leader as well. When they hired to do this job they gave a public trust and are accountable not only to the board of management, but to the parents, students, alumni and community members who support the university. They are accountable for the expenditures, activities, actions, and direction of the university takes. Even they are accountable for the character of the organization.

The dimensions of ethical leadership have become a key theme in the educational leadership literature (Campbell, 2003; Dempster and Berry, 2003; Starratt, 1996). In the changing and challenging environment in which the universities now operate, it is not surprising that university leaders are often faced with ethical challenges in the course of their daily work as they attempt to make complex decisions in the best interests of both staff and students.

The moral and ethical dimensions of leadership have received increasing emphasis in recent literature (Campbell, 2003; Chittenden, 2004; Day, 2000; Day, Harris and Hadfield, 1999; Dempster and Berry, 2003; Duignan).This attention has been due to increasingly complex in which leaders work (Cooper, 1998) and the view that educational leadership is clearly the value based activity

(Walker and Shakotko, 1999). According to Hodgkinson (1991) values, morals and ethics are the key stuff of leadership and administrative life. Our society expect that those holding leadership positions should act justly, rightly and promote good as well as demonstrate moral and professional accountability (Eraut, 1993; Edwards, 2001). In other words, leadership in the academics has a moral purpose, have a responsibility and duty to act in the best interests of both students and staff.

This paper is based on the literature review and in depth exploratory interviews with the institutional leaders and departmental heads in three universities and one research organization with a view to investigating the antecedents of ethical leadership while the latter part of the paper incorporates the consequences of ethical leadership. Out of these, the first two are large universities with several departments, including science, social science and humanities. The third is a scientific research institute focusing on sheep and wool research. The fourth is a small university focusing on information technology and management education and research. These include Central University of Rajasthan - Ajmer, Maharshi Dayanand Saraswati University - Ajmer, Central Sheep and Wool Research Institute -Tonk and Atal Bihari Vajpayee Indian Institute of Information Technology and Management - Gwalior.

REVIEW OF LITERATURE

The study of ethical leadership has emerged as a thought-provoking, interesting and relevant sub-area. An ethical leader is one whose actions and influence processes are consistent with ethical and moral values. Ethical leadership is defined "as the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (Brown et al., 2005: 120). The study of leadership is not a new phenomenon – historically it has been at the main stage of academic and popular writing (Burns, 1978). Leadership is defined as a process whereby an individual influences a group of individuals to achieve a common goal (Northouse, 2007). While the earlier studies on leadership have focused mainly on the traits of leaders, the behavior of leaders (concern for people vis-à-vis concern for task), ability to modify their behavior in response to situations, goal orientation, reward system, and contextual factors such as nature of the task, organisational climate or culture. An ethical leader must be both a morally good person and a morally good manager (Brown et al., 2005; Trevino et al., 2000). A morally good person would be one who would display such values, and be considered a good human being (Guillen, 2006) and altruistic individual

(Brown et al., 2005). Being a morally good manager is related to the conduct of the leader and the interpersonal relationship with followers. In these theories, the ethical dimension in leadership has almost been overlooked or taken for granted (Bass, 1990; Ciulla, 1998; House and Aditya, 1997). Theories which focus only on leader characteristics or behavior, fail to address leadership in its entirety, because leadership essentially implies an interactive interpersonal relationship between the leader and the follower (Bass, 1990; Burns, 1978; Gini, 1997; Greenleaf, 1977, 1979). Transformational leadership has been used to explain leaders who have a sense of purpose, vision, charisma, self-sacrifice, and ability to inspire, motivate and influence followers to exceed the ordinary (Bass and Avalio, 1993; Burns, 1978). Other studies have treated ethical leadership at an almost philosophical level (Ciulla, 1998). However, in recent years, there has been a quantum jump in the scholarship on ethical leadership, which indicates earnest efforts by scholars to fill up this lacuna (Bass, 1998; Brown and Treviño, 2006). However, few studies have examined ethical leadership outside the American business context, and researchers have been exhorted to examine ethical leadership in different organisational contexts (Detert et al., 2007). The Indian culture is vertical and collectivist with predominance of external locus of control, high relationship orientation and high power distance. In this context, a nurturant, task-oriented style of leadership has been suggested to be more appropriate (Khuntia and Suar, 2004). Few studies have been conducted on ethics in academics. A study by Gbadamosi (2004) examined examination conduct among students, and found a strong association between examination misconduct and business ethics.

PURPOSE OF THE STUDY

This study will play an important role in understanding the concept of ethical leadership in universities and research organization. The purpose of the study is to identify the antecedents and consequences of ethical leadership in universities and research organization. In addition to this in-depth interviews were conducted with few respondents through personal visits to understand the issues, challenges and opportunities related to ethical leadership in universities and research organization.

1. Dimensions of ethical leadership

As discussed in the literature, ethical leadership is a multidimensional concept. We have captured several dimensions of ethical leadership from the literature and summarised them in table 1.

Table 1: Dimensions of Ethical Leadership

S. No.	Value-Orientation	Attitudes	Influence Strategies and Actions (vis-a-vis subordinates)
1.	Integrity (4)	People-focused (2)	Lead by example
2.	Fairness (5)	Concern for sustainability	Fairness (2)
3.	High moral character (2)	Concern for stakeholders	Actively manage morality
4.	Altruism (3)	Consider how their decisions impact the external environment	Communication system (5)
5.	Good human being		Performance measurement
6.	Open		Reward system (3)
7.	Honest (4)		Ethical guidance
8.	Commitment to a larger purpose (3)		Power sharing
9.	High degree of motivation		Role clarification (2)
10.	Emotional strength		Doing actions that benefit others and refraining from actions that can harm others (2) * even if it costs the leader
11.	Deep sense of unconditional obligation to others/ responsibility (2)		Make value-based decisions
12.	Concern for others/ caring (2)		Make subordinates' work meaningful
13.	Justice		Instill pride and commitment among subordinates
14.	Empathy		Role modeling
15.	Prudence		
16.	Pride (2)		
17.	Persistence/ determination (2)		
18.	Patience		
19.	Shared values		
20.	Humility		
21.	Tolerance		
22.	Enthusiasm		
23.	Courage		

24.	Responsibility		
25.	Listening to others		

** The number in parentheses includes number of times cited in the literature*

Ethical leaders are open and honest, reaffirm the ideals of their respective organisations, display an unmatched concern for how their decisions affect stakeholders, have a high degree of motivation and emotional strength, and have a deep sense of unconditional obligation to others, which emanates from their religious beliefs (Murphy and Enderle, 1995). Ethical values include basic convictions of socially desirable behavior, such as honesty, integrity, fairness, justice, empathy and concern for others (Brown et al, 2005; Toor and Ofori, 2009). Ethical leaders are motivated by the desire to benefit others even if it costs them (Kanungo and Mendonca, 1996; 1998).The beliefs, values and behavior of ethical leaders are consistent with moral principles, and they are committed to higher purpose, prudence, pride, patience, and persistence (Khuntia and Suar, 2004).

2. Consequences of Ethical leadership

We have classified the outcomes of ethical leadership at three levels, the micro, the meso and the macro. Micro-level consequences are related to outcomes at the level of the individual employee, meso-level consequences are related to the group or unit, and macro-level consequences to the entire organisation. These are summarised in table 2.

Table 2: The relationships and outcomes of ethical leadership

S. No.	Author (year)	Level of EL	Relationships/ Outcomes of EL	Level of Outcome (micro/meso/ macro)
1.	Shin (2011)	CEO	Ethical climate which in turn influences climate strength and moderates collective OCB	Macro level
2.	De Hoogh and Den Hartog (2008)	CEO	Effectiveness of the top management team	Meso level
3.	Toor and Ofori (2009)	Senior management	Positive correlation with leader effectiveness, employee willingness to put in extra effort, employee satisfaction with the leader.	Micro level
4.	Toor and Ofori (2009)	Senior management	Negative correlation with laissez faire leadership and transactional culture of the organization	Micro level Macro level

5.	Neubert et al.(2009)	Senior management	Ethical climate	Macro level
6.	Walumba and Schaubroeck, (2009)	Multiple	Positive relationship with voice	Micro level
7.	Mayer et al (2009)	Top and supervisory level	Negative relationship with group-level deviance Positive relationship with group-level OCB	Meso level
8.	Mayer et al. (2012)	Multiple	Positive relationship with moral identity symbolization and moral identity internalization, and negative relationship with instances of unethical behavior and interpersonal conflict (either due to clash of personalities or matters not related to the job).	Micro level
9.	Mayer, Kuenzi and Greenbam, (2010).	Multiple	Creation of ethical climate and thereby reducing misconduct among employees.	Macro level
10.	Avey, Wernsing and Palanski (2012)	Multiple	Positive relationship with psychological well-being through enhancing employee voice. Positive relationship with job satisfaction through enhancing psychological ownership	Micro level
11.	Kalshoven, Den Hartog and De Hoogh (2011)	Multiple	Positive relationship with trust in the leader, leader effectiveness, employees' OCB, employee effectiveness. Negative relationship with cynicism	Micro level
12.	Bower 2003; Collins, 2011	Supervisory level	Employee attraction and retention	Micro level
13.	Khuntia and Suar, 2004	Senior Management	Positive relationship with job performance, job involvement, affective commitment, negative relationship with unethical conduct by subordinates.	Micro level
14.	Brown et al., (2005)	Multiple	Perceived effectiveness of leader, job satisfaction and dedication, and willingness of employees to report problems to management.	Micro level
15.	Brown et al., (2005)	Multiple	Negative relationship with interpersonal conflict in the work group	Meso level
16.	Bhal and Dadich (2011)	Student	Whistle blowing	Micro level

17.	Mulki et al. (2009)	Supervisory level	Organisational effectiveness and ethical climate of the organization	Macro level

3. Level of Ethical Leadership

Majority of the literature on ethical leadership is focused on supervisory ethical leadership. There are few studies on ethical leadership of CEOs (De Hoogh and Den Hartog, 2008; Murphy and Enderle, 1995; Shin, 2011) and top managers (Mayer et al., 2009, Neubert et al., 2009; Toor and Ofori, 2009). Majority of the studies have been conducted on supervisory ethical leadership or on several levels of managers and employees.

4. Conceptual Framework

The first part of our ethical leadership framework includes the antecedents of ethical leadership, while the latter part incorporates the consequences of ethical leadership, as depicted in figure 1. The antecedents of ethical leadership have already been summarised in table 1. These include value-orientation, attitudes and influence strategies (vis-à-vis subordinates) of the ethical leader. The consequence of ethical leadership are examined at three levels of organisational behavior, namely, the individual (micro), the work group (meso) and the organisation (macro).

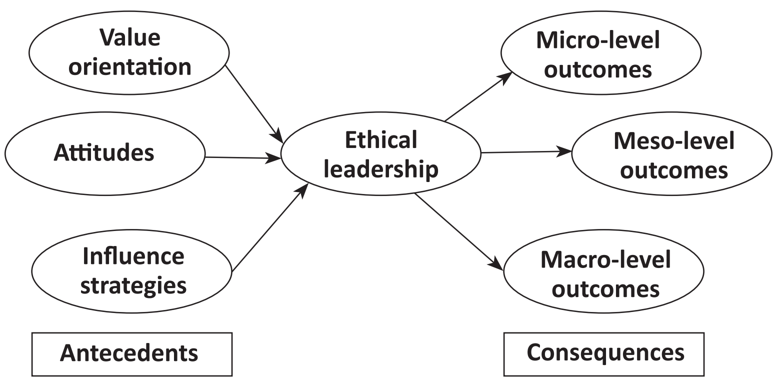

Fig. 1: Conceptual framework depicting the antecedents and consequences of ethical leadership.

METHODOLOGY

To better understand ethical leadership in universities and research organization, we conducted in-depth interviews with the institutional leaders and departmental heads in three universities and one research organization. The use of qualitative, interview based research to study ethical leadership from the perspective of organizational members. In this study, in-depth interviews were chosen as the main data collection instrument because it has the advantage of collecting large amount of data about the participant's perspectives relatively quickly and clarification of issues if required. It also enables the researchers to understand the views and experiences of others and the meaning they attach to their experiences (Seidman, 1991).

In the following section, we are interested only in identifying the antecedents and outcomes of ethical leadership in universities and research organization. In a structured interview with open-ended questions, interviews were encouraged to talk at length about their experiences and views about ethical leadership.

Table 3: Organization wise details of key informants

Organization	**Number of people interviewed**			
	Institutional leader	Top	Middle	Total
Central University of Rajasthan, Bandarsindri, District Ajmer	01	03	02	06
Maharishi Dayanand Saraswati University, Ajmer	-	03	03	06
Atal Bihari Vajpayee Indian Institute of Information Technology and Management, Gwalior	01	-	-	01
Central Sheep and Wool Research Institute, Avikanagar, District Tonk	01	-	05	06
Grand total				19

Figures in the parentheses indicates number of response

Findings: Following dimensions were identified after interviewing with the institutional leaders.

Table 4: Dimensions of Ethical Leadership in Universities/Research Organizations

Value orientation	**Sources of the values**	**Attitudes**	**Influence strategies and actions**
Honesty (16)	Family (17)	Academic dishonesty (10)	Disciplining (3)
Self discipline (13)	Teachers (9)	Commitment towards work (8)	Prevention (through policies) (2)
Hard work (11)	Socialization (13)	Relations with people (19)	Strength of the moral character (12)

Concern for people (7)	The inner self (3)		Communication system (6)
	Ethical failure (1)		Lead by example (5)
			Ignoring (2)

Figures in the parentheses indicates number of response

84.21% of the respondents consider honesty as the most important value, followed by self discipline (68.42%), hard work (57.89%) and concern for people (36.84%). 89.47% of the respondents consider family as their most important source of values, followed by socialization (68.42%) and teachers (47.36%). One respondent also considered an ethical failure as an eye opener and therefore a source of values. We explored the respondents' attitudes towards ethical issues and their biggest concern was relations with people (including fairness, non discrimination, empathy, how to deal with pressure groups, ability to adjust in a cross-cultural environment, etc.), academic dishonesty (plagiarism, tampering research results, violation of intellectual property rights, etc.) and commitment towards work (conscientiousness in the laboratory, quality of work, etc.). 68% of the respondents do not face a values conflict with the organization as their own values are aligned with that of the organization. However, the institutional leaders face conflicting values (vis-à-vis other people) as they have to address multiple concerns, which may be at cross-purposes. In terms of action, leaders discipline employees in just over 16% of the cases, and take preventive action in over 11% of cases. 63.15% of the respondents suggested that they take a firm stand and get acceptance by the strength of their own moral character. 26.31% of the respondents 'lead by example', whereas 31.57% use a communication system to influence employees (including sensitization or counseling) or just ignore problem creators (2cases).

The institutional leaders are involved in the recruitment and selection of candidates. Though ethics is not used as an explicit criterion for assessing a candidate, 84.21 % of the leaders opine that it should be so. Though it is difficult to assess the values of an individual in the short duration of a selection interview, they try to do so by subjecting the candidates to aptitude and personality assessment tests, posing hypothetical questions, understanding the attitudes and motives of an individual, running background checks, and taking the opinion of experts on the interview panel. In the Indian context, an institutional leader is appointed for a term of five years (which may further be extended to another five years). In such a scenario, the values, attitudes and influence strategies of the institutional leader percolate down and play an important role in

Table 5: Outcomes of Ethical Leadership in Universities/Research Organizations

Micro level	**Meso level**	**Macro level**
Individual performance (16)	Good interpersonal relationships (9)	Overall quality of teaching and research (18)
Employee satisfaction (14)	Team work (12)	Overall quality of administration (13)
Willingness of employee to go beyond the call of duty (8)	Cohesion among work units (5)	Positive energy in the organization (5)
Promotion of values such as openness, trust, dedication (18)	Lower instances of interpersonal conflict (1)	Fulfillment of the organization mandate/ objectives (9)
Lower instances of unethical conduct by employees (7)		Creation and sustenance of ethical climate (12)
Lower instances of bad mouthing by employees (3)		Creation of goodwill in the society (10)

Figures in parentheses indicate number of responses shaping the attitudes and behavior of employees. The outcomes of ethical leadership, as stated by our key informants are summarized in table 5. At micro level, ethical leadership leads to accomplishment of individual work and timely completion of assignments. It also promotes positive behavior such as going beyond the call of duty (OCB) and reduces unethical conduct and badmouthing by employees. At meso level, ethical leadership leads to good interpersonal relationships and cohesion among work units. At macro level, the ethical leader's own attitudes and behavior may affect the outcomes of the institution terms of research and teaching output, quality of administration, fulfillment of the organizational mandate, and creation of a positive ethical climate.

A leader in academics must possess a high standard of personal ethics. Our interviews mostly viewed honesty as a disciplined adherence to moral code of behavior. Our interviews view honesty and trust as the backbone of their work. Professional ethics is the extension of personal ethics. Professional ethics is seen as an organizational specific rules and acceptable behavior that could be learned on the job only if there is already a strong grounding in personal ethics to build upon. The respondents discussed that an ideal leader must possess specific values such as passion for building relationship, fairness with other, compassion, willingness to accept other failures, respect for other, strong feeling for people and other people's problem and sensitivity to the surrounding, while interacting with students, staff and outside. Ethical leadership is the ability to verbally and nonverbally communicate high ethical standards clearly for staff and clients. An ethical leader has clear and exact verbalization of standards and a consistency in ethical vision either through explicitly talking about applying our values in day to day decision making, or putting signs on the wall.

Codes of ethics are also used specially to promote ethical teaching practice. The nine principles of ethical leadership in academics outlined in the (Society of teaching and learning institution in Higher Education, 1996) include content competence , pedagogical competence, confidentiality, intellectual development of students, proper student assessment, dealing with sensitive topics, dual role relationship with student, respect for colleagues, and respect for institution. It is important that the institution of higher education pay attention to not only what they say but also to what they do. According to Astrin (1991), some of the most serious ethical problems in higher education arise from inconsistencies between explicit and implicit values. Cheating is the most common practice among the student. Technology enhancement, plagiarism and other forms of academics dishonesty are growing concern for higher education institution.

LIMITATION AND IMPLICATIONS FOR FURTHER RESEARCH

This study is part of an ongoing research, and was therefore limited to a small sample size and includes limited number of respondents. Some of these respondents hold or have held top leadership positions in their respective institutions. While others are part of the top management team. Ethical leadership outside the corporate context is relatively less known. The rationale for this study was to examine ethical leadership in the context of universities and research institutions. As a second step, more in-depth analysis could also be undertaken by profiling the biographies of top leaders. Despite the universality of ethics, the institutional context determines the way in which ethics is understood, interpreted and legitimised in a particular context.

CONCLUSION

The institutional leaders must take seriously their obligation to contribute to the moral development of the students. Students will learn to do the right things only within the context of ethical institution. Faculties, administrator in family and other academic disciplines have an important role in building institution that promotes integrity. Our key argument is that the ethical leader's own value orientation, ethical attitudes and influence strategies play an important role in shaping the attitudes and behaviors of employees and the overall ethical climate. Education is a public good not merely a private benefit and educator must be dedicated to the transmission of knowledge for the welfare of the society. We believe that this study contribute effectively for raising awareness and understanding about ethical leadership in universities and research institutes.

IMPLICATIONS OF THE STUDY

Though the importance of ethics and ethical leadership is well-understood and undisputed, there is a need for explicit policy measures not only to hire ethical leaders but also develop ethical leadership among young scientists and faculty. In recruitment and selection decisions, the ethical background and reputation could be used as an explicit criterion for assessment of the potential candidates. Search Committees constituted for the appointment of Vice Chancellors/ Directors can look for individuals with a reputation of being an ethical leader. In order to prepare professionals for their future role as ethical leaders, departmental heads and team leaders in academic/ research institutes should be put through training on ethical leadership. Education planners and policy makers can make a number of changes in existing education plans and policies by incorporating ethics-related issues. University curricula for graduate and undergraduate education must include ethics as core course. All the students or scientists undertaking research must undergo a rigorous course in the ethics of research. In India, faculty are required to periodically undergo Orientation Courses, Refresher Courses, Summer/ Winter Schools for a duration ranging from three to four weeks, organized by the University Grants Commission or universities and institutes. Though there is a component of ethics in these courses, there is a need for dealing with ethics with more rigor, depth and analysis.

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Annexure I: All of our interviews with institutional leaders and departmental heads directly supervise the staff and students, facing ethical challenges in their professional and personal life. Our interviews with:

- Prof. M.M. Salunkhe – Former Vice Chancellor, Central University of Rajasthan, Ajmer.
- Prof. S.G. Deshmukh - Director, Atal Bihari Vajpayee Indian Institute of Information Technology and Management, Gwalior.
- Prof. K.C. Sharma - Dean (Academics), Dean (School of Earth Science) & Head (Department of Environment science), Central University of Rajasthan, Ajmer.
- Prof. A.P. Singh - Dean (School of Mathematics, Statistics & Computational Sciences) & Head (Department of Mathematics), Central University of Rajasthan, Ajmer.
- Dr. Pawan Dadeech - Head, (Department of Microbiology), Central University of Rajasthan, Ajmer.
- Prof. Satish Agarwal - Head (Department of Management/ Department of Law), M.D.S. University, Ajmer.
- Prof. B.P.Saraswat – Head & Dean (Department of commerce) and Director (Center for Entrepreneurship and Small Business Management), M.D.S. University, Ajmer.
- Dr. Ashish Bhatnager - Head, (Department of Microbiology), M.D.S. University, Ajmer.
- Dr. Ritu Mathur - Director (Research) & Associate Professor (Department of Food & Nutrition), M.D.S. University, Ajmer.
- Dr. Bharati Jain - Associate professor, (Department of Food & Nutrition), M.D.S. University, Ajmer.
- Dr. Praveen Mathur - Head, (Department of Environment Science), M.D.S. University, Ajmer.
- Dr. V. K Singh - Director (Retd.), Central Sheep & Wool Research Institute, Avikanagar, District Tonk.

chapter

22

International Financial Reporting Standards (IFRS) – A Step Towards Global Consistency in Accounting

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ABSTRACT

The world at present is an economic village. International Financial Reporting Standards (IFRS) is set up with the aim of synchronizing accounting standards across the globe and making it comparable with the other countries. It helps harmonize company financial information thereby improving the transparent and ensuring investor's accurate and consistent reports. The need was felt to have a uniform language for financial reporting along with uniform set of accounting standards, strong regulatory framework and corporate governance which would motivate and benefit the investors and the growth of the business. Corporate reporting has an influence on the investment decisions and the countries recognizing its significance attach greater importance to transparency and reporting so that the financial resources can be mobilized and used more effectively and efficiently towards achieving economic and social development goals. The paper deals with the overview of adoption of IFRS, discusses the step adopted in India for convergence of IFRS with IAS and its utility to Indian entities. The paper examines the challenges faced by the stakeholders and offers suggestions to address them.

Key Words: International Financial Reporting Standard, Indian Accounting Standard (IAS), India

INTRODUCTION

The world at present is an economic village. The emerging economies and increasing access to the global market to fulfill the capital requirement has led to the companies getting their securities listed in the stock exchanges of other countries. This trend has integrated the capital market worldwide and the need is to have a single globally accepted financial reporting system to bring consistency in the accounting world. For this a set of globally accepted accounting standards are required to be adopted by all the company's world over.

IFRS is set up with the aim of synchronizing accounting standards across the globe and making it comparable with the other countries. It helps harmonize company financial information thereby improving the transparency and ensuring investor's accurate and consistent reports. The need was felt to have a uniform language for financial reporting along with uniform set of accounting standards, strong regulatory framework and corporate governance which would motivate and benefit the investors and the growth of the business. Corporate reporting has an influence on the investment decisions and the countries recognizing its significance attach greater importance to transparency and reporting so that the financial resources can be mobilized and used more effectively and efficiently towards achieving economic and social development goals.

OVERVIEW OF ADOPTION OF IFRS

IFRS are accounting rules or standards which are issued by the International Accounting Standard Board (IASB), an independent organization based in London, UK. The process of international convergence started in 1973 with 16 professional accountancy bodies all over the world agreeing to form International Accounting Standard Committee (IASC) which was in 2001 replaced by International Accounting Standards Board (IASB). Up to 2000, the IASC's rules were described as "International Accounting Standards" (IAS).

Global standards and their interpretations developed by IASB are known as International Financial Reporting Standards (IFRS). Council of Institute of Chartered Accountants of India (ICAI) in May 2006 considered and supported the adoption of IFRS. A task force was set up by IFRS to provide a road map for the convergence with the IFRS from accounting period commencing on or after 1st April 2011.

The process of convergence of Indian accounting Standard (IAS) with IFRS was undertaken in India by the Ministry of Corporate Affairs and finally 31 IAS got converged with IFRS. It is important to know the difference between adoption and convergence. *Adoption* means using IFRS as issued by the IASB and *convergence* means that the Indian Accounting Standard Board (IASB) and International Accounting Standard Board (IASB) would continue to work together towards developing high quality, compatible standards.

Objectives of IFRS: The main objective of IFRS development is to synchronize the accounting standards all over the world. Few additional objectives are as follows:

- Creating the global financial reporting infrastructure.
- Generating sound business sense among the beneficiaries.
- Generating the dimensions for fair presentation of financial statement.
- Maintaining higher transparency of financial statement and mobility of capital.

CONVERGENCE OF IFRS AND US-GAAP

In the year 2002, the IASB and the FASB have signed a Memorandum of Understanding (MoU) to adopt various initiatives known as the Norwalk Agreement with the view to converge the standards. Both the boards pledged to make the standards practicable and compatible. They signed a MoU on three main points of principles to be reached by the year 2008. These principles are:

1. Convergence of the accounting standards by bringing in a set of high quality common standards,
2. Instead of eliminating differences between the two standards, a set of new common standards be issued for the benefit of the investors and
3. Replacement of the old standards to bring in convergence.

OBJECTIVE OF THE STUDY

The objective of the present study is to focus on the following areas-

- Steps which are adopted in India for the convergence of IFRS with Indian Accounting Standards
- To discuss the IFRS utility to Indian entities.
- To discuss the challenges faced by the stakeholders in the process of adoption of IFRS in India.
- To discuss the ways to address the challenges.

SOURCE OF DATA

Most of the research which has been carried out on IFRS is mainly of member countries of EU as they were the first ones to adopt IFRS across the globe. For the purpose of the study secondary data is taken from the reports of the corporate houses, articles, interviews published in various newspapers etc.

NEED FOR FINANCIAL REPORTING IN INDIA

Since independence in 1947 Indian industries were under the State control and the any entrepreneur interested in starting a new business venture (or, expansion of its existing capacity) had to take multiple permissions from various government departments. It was commercial banks and financial institutions which catered the need of funding the business, foreign investment was negligible. After the liberalization of the economy in 1991, India faced severe balance of payment crisis. The government resorted to opening up of Indian economy to foreign investment in various industrial sectors. Both the industrial and financial sectors were deregulated and rupee was made convertible on current account. The Indian companies were able to access the capital market and the corporate houses were allowed to tap the foreign financial market to meet their fund requirements. Insurance, banking, telecom, retail, and software, among many others were opened for foreign investments.

The foreign entities expanded their investment portfolio and this increasing investment trend demanded for a consistent corporate financial reporting system which would be acceptable across the world. The companies entering into mergers and amalgamations required a uniform system of reporting to overcome from the complexities of different accounting standards followed by different countries. Currently, Indian Companies are reporting their financial statements based on Indian Accounting Standards prepared by Institute of Chartered Accountants of India (ICAI).These Standards are quite similar to IFRS.

LITERATURE REVIEW

Shekhar and Prasad (2013) in his study *"Relevance of International Financial Reporting Standards in the Globalized Economy – An empirical study"* found that the biggest challenge in adopting IFRS in India is due to its existing laws and regulations. The need of the hour is to amend these laws to complement the transformation phase and to create awareness about its utility. **Archana, Ratro and Gupta (2012)** conducted a study entitled *"Adoption of IFRS in Accounting Curriculum in India – An empirical study"* to know the awareness level of students regarding IFRS. The findings of the study revealed that the educational institutions are not ready to include IFRS in their curriculum due to lack of knowledge. Lantto & Sahlstrom (2009) in their study of key financial ratios of companies of Finland found that the adoption of IFRS changes the magnitude of the key accounting ratios. **Chand & White (2007)** in their paper on *"Convergence of Domestic Accounting Standards and IFRS"* found that the influence of Multinational Enterprises and large international accounting firms can lead to transfer of economic resources in their favour. **Lantto, A.M. (2007)** conducted a study on *"Does IFRS improve the usefulness of accounting information on code law country"* and found that the relevance of accounting standards have improved after adopting IFRS in Finland but questioned on the reliability on the financial statements prepared using judgment. **Barth, Landsman, & Lang (2006)** found that firms adopting IFRS have less earnings management, more timely loss recogniti on, and more value relevance of earnings, all of which they interpret as evidence of higher accounting quality. **Joseph, (2000)** in his study, *"India and International Accounting Standards"* found that consistent reporting attracts entrepreneurs and investors by increasing the rate of investment. These literature review exhibits that the countries following a single set of accounting standards are benefited across the globe.

IFRS ADOPTION PROCEDURE IN INDIA

Accounting Standard Board (ASB) was established in 1977 to harmonize the diverse accounting practices and policies followed worldwide. The other objectives of the ASB was to conceive and suggest new areas where Accounting Standards are required, formulate new accounting standards, examine how far IAS and IFRS can be adapted while formulating the accounting standards and reviewing the existing Accounting Standards and revising and monitoring them regularly. A task force was set up by ICAI in 2006, with an objective to lay down the road map for convergence of IFRS in India. On the basis of the discussions and outcome of the task force a three step process was laid down by the accounting professionals in India.

This Three Steps IFRS Adoption Procedure can be Summarized as Follows

Step-1 IFRS Impact Assessment

In this step, the firm will begin with the

- Assessment of the *impact of IFRS* adoption on accounting and reporting issues, on systems and processes, and on business of the firm.
- The firm will then identify the *key conversion dates* and accordingly a IFRS training plan will be laid down.
- Once the training plan is in place, the firm will have to *identify the key financial reporting standards* that will apply to the firm and

also the differences among current financial reporting standards being followed by the firm and IFRS.

- The firm will also *identify the loopholes* in the existing systems and processes.

STEP 2 – Preparations for IFRS Implementation

- This step will carry out the *activities required for IFRS* implementation process. It will begin with documentation of IFRS Accounting Manual.
- The firm will than *revamp the internal reporting* systems and processes.
- IFRS 1 which deals with the first time adoption of IFRS will be f*ollowed to guide* through the first time IFRS adoption procedure.
- To make the convergence process smooth, *some exemptions are available* under IFRS 1.These exemptions are identified and applied. To ensure that the IFRS are applied correctly and consistently, control systems are designed and put in place.

STEP 3 – Implementation

- This step involves *actual implementation of IFRS.* The first activity carried out in this phase is to prepare an opening Balance Sheet at the date of transition to IFRS

Utility for India in Adopting IFRS

The research studies conducted worldwide prove that the countries following IFRS for financial reporting are benefited as they provide better information for shareholders, better financial information for regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital. The following are few benefits out of many which countries adopting the IFRS system of financial reporting can avail:

- *Better Access to Global Capital Markets*

With the globalization of Indian economy the firms are expanding their business oversea which requires funds at cheaper cost and to meet the regulatory requirements of those countries they are required to do reporting as per IFRS.

- *Adoption of IFRS will help in comparing the companies at global level*

Many countries have been following the IFRS to report their financial reports. Indian firms will be benefited as the comparability between two entities will be possible. The stakeholders -investors, bankers and lenders, will also be benefitted as they will be in a position to compare the financial statements following same reporting procedures. Since majority of Indian Firms are accessing European capital markets, preparation and presentation of financial statements on the basis of IFRS helps firms in getting easy accessibility to these capital markets. The enhanced comparability of the companies' financial information and the improved quality of communication to their stockholders, decrease investor uncertainty, reduce risk, increases market efficiency and eventually minimizes the cost of capital.

- *For listing in foreign capital market*

For acquiring funds to finance their business plans Indian companies have spread out their wings and are acquiring funds from foreign capital market and to get listed in European and American Capital Market it is mandatory to prepare account as per IFRS. Few companies have started to prepare their financial statements as per IFRS to get their shares listed in foreign capital market.

- *For better quality of financial reporting*

Adoption of IFRS is expected to result in better quality of financial reporting due to consistent application of accounting principles and improvement in reliability of financial statements. Among various latest trends, IFRS follows a concept of fair value which can help Indian firms to reflect their true worth of assets held in the financial statements. Since a single body (IASB, London) is preparing IFRS, these are very consistent, reliable and easy to adopt ensuring better quality of financial reporting.

- *Elimination of multiple reporting*

Indian companies registered in Europeans and American capital market had to prepare their financial statements as per Indian Accounting Standards in India and to meet the regulatory requirements of foreign country they have to prepare financial settlement as per IFRS. Adoption of IFRS will eliminate multiple reporting practices and bring consistency in the financial reporting standards.

The above benefits of IFRS are perceived benefits as research is yet to be undertaken to know the actual benefits.

CHALLENGES IN THE PROCESS OF ADOPTION OF IFRS IN INDIA

Several countries who have already adopted IFRS have listed various benefits which has made their financial reporting more informative and transparent. But in spite of these benefits there are certain challenges which are in adoption of IFRS in India. Few of these have been listed as below:

1. **Awareness of International Financial Reporting Practices:** The business entities lack information regarding reporting standards. Adoption of IFRS means a complete set of different reporting standards need to be informed about to the corporate houses. It is a challenging task to acquaint the stakeholders like firms, banks, stock exchanges, commodity exchanges etc., who are at a preliminary stage of updating themselves regarding IFRS.
2. **Training:** Professional Accountants are looked upon to ensure successful implementation of IFRS. Along with these Accountants, Government officials, Chief Executive Officers, Chief Information officers are also responsible for a smooth adoption process. Lack of proper training to such a large group will pose a challenge. Above all, India at present has very few fully trained professional to carry out the task of adoption of IFRS.
3. **Amendments to the Existing Laws:** In India, Accounting Practices are governed mainly by Companies Act 2013 and Indian Generally Accepted Accounting Principles (GAAP). Existing laws such as Securities Exchange Board of India regulations, Indian Banking Laws & Regulations, Foreign Exchange Management Act also provide some guidelines on preparation of Financial Statements in India. IFRS does not recognize the presence of these laws. So the existence of multiple laws in India will throw open challenge in the smooth transition to IFRS.
4. **Taxation:** Adoption of IFRS requires amendment in the current Indian Tax Law as its adoption will affect most of the items in the financial statements. A major challenge lies in overhauling the tax law. Numerous changes are to be made in Tax laws to ensure that tax authorities recognize IFRS and eliminate the duplication.
6. **Use of Fair value as measurement base:** The base of measuring financial statements in IFRS is fair value measurement. Till now, the Indian accounting statements have been using historical cost. A shift from historical cost to fair value cost is a tough task as it will bring lot of volatility and subjectivity to the financial statements. The results in the income statement and the balance sheet will register a tremendous change due to this base shifting.
7. **Financial Reporting system:** IFRS provide a comprehensive financial reporting system which we at present lack in our reporting system. To bring about consistent reporting throughout the world

the need is to amend the present reporting model. For this various laws and Acts in India require amendments to make the process of transition smooth.

SUGGESTIONS AND CONCLUSION

Some other ways to tackle the obstacles in adoption of IFRS can be summarized as follows:

1. First and foremost the awareness has to be created among the business community regarding the benefits and the opportunities which can be availed by them by adopting IFRS. Apart from the above the need is to create awareness among the students by including IFRS in the curriculum at the university level.
2. Training workshops and seminars should be a regular feature to promote and provide a platform for discussion and query solving by the business houses.
3. Required amendments should be made in existing Tax Laws, Foreign Exchange Management Act, Insurance Act etc., to compliment the IFRS process. In July 2009, a committee has been formed by Ministry of Corporate Affairs Government of India, with a view to identify the various legal and regulatory changes required for convergence and to prepare a roadmap for achieving the same.
4. There is a crunch of trained Accountants and Auditors which is acting as the greatest hurdle in timely adoption of IFRS in India. The Institute of Chartered Accountants of India (ICAI) has started IFRS. Regular Training programmes must be conducted for its members and other interested parties. Yet there exists a large gap in the Trained Professionals required and trained professional available.
5. The accounting bodies should have boards to monitor the adoption procedure to ensure that all the firms are complying with the adoption procedure along with playing an advisory role.

All the challenges mentioned here can be worked out by bringing a proper internal control & reporting system in place. Firms, Regulators and Stock Exchanges in India should take some guidelines from the countries which have adopted the IFRS and have similar economic, political and social conditions. IFRS adoption is not an easy task but the Government and the Accounting bodies are all set to take these challenges to smoothen the road of transition. The Companies should cooperate with the government and the professional bodies and make India stand parallel to its global counterpart.

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chapter

23

Intangible Resources in Mexican Accounting Standards: Recognition and Concealment

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ABSTRACT

In the strategic discipline, resourced based view is widely accepted to explain the source of competitive advantage, it notes that the success of a company lies in the heterogeneity of the internal means are there to carry out their activity. The intangible resources have greater strategic potential. Other disciplines related to firm performance have lagged behind in considering the true value of intangible resource; this is the case of accounting. This work is based on analysis of Mexican financial reporting standards on intangibles; the goal is to identify what is the status of recognition. The results show that there is still a gap between the value shown in the financial statements of companies and their true value in light of the theory of resources and capacities.

Keywords: Accounting Recognition, Financial Reporting Standards, Good weal, Hidden assets, Intangibles, Resource-based View.

INTRODUCTION

Accounting information is used by various users; among them are the shareholders and investors also known Shareholders. These users are interested to know the state of company's assets and its generating profit capacity. This is where the management strategy objectives are intertwined with accounting.

An adequate knowledge of the firm allowing the development of successful strategies is linked to the existence of reliable information for decision making. Currently, given the regulations of different countries, the result of accounting financial statements, do not wholly reflect the monetary value of resources and capabilities that make a company more competitive compared to others with which it interacts in its market. These resources are commonly called intangible.

THEORETICAL BACKGROUND

For three decades, strategic management has focused on the study of the competitive behavior of the firm and the determinant factors of its success. Together these factors are called competitive advantage. Two approaches that have emerged to explain the existence of this advantage are the structural theory also known as the industry-based approach and the theory of resources and capacities. Fong (2005) mentions that the first theory is based on industrial organization while the second theory breaks with the emphasis that is given to the industry and focuses on the company itself.

Of the two theories, there sources and capabilities is widely accepted as the empirical evidence shows that internal company factors explain a larger percentage of the differences between the average profits of firms (Wernerfelt, 1989). Although there source-based theory has its origin in the strategic management their main base consists of microeconomic theory. In this sense, Penrose (1959) argues that the existence of producing agents that achieve extraordinary long-term benefits can be explained by differences between their resources and capacities as well as its long-term maintenance. Meanwhile Wernerfelt (1989), the precursor of this theory suggests that the most important tools to dominate the market are strongly related to the resources of the company in terms of strengths and weaknesses.

The resource – based theory based on the above idea argues that the source of competitive advantage is in the internal means by which the company has to carry out its activity. The difference between firms lays in the resource class and capabilities that count, its accumulation and especially the way in which they are used to achieve success.

In the same order, Barney (2008), one of the principal authors addressing this approach, states that two key aspects about the point of view based on resources and capabilities are the heterogeneity and immobility of resources. The first aspect is that different companies also have different endowments of means with which to carry out its production. The second aspect, the immobility, is a concept related to having the ability to control the company and to exercise ownership over the media. Although there is no formal definition of resource bringing together all the different positions of representative authors of this current, Peng (2010) notes that resources are the tangible and intangible assets used by a firm to design and implement their strategies. Intangible resources are those that can be seen and quantified, while intangibles are those who lack physical substance and therefore are not easily identifiable. Furthermore, capabilities are "the very ability of each company to the strategic use of resources" (Peng, 2010).

In terms of the theory, not any resource is generating success. This potential depends on its intrinsic nature and the way it is used depending on entrepreneurial skills. Therefore, an action considered strategic for a company may not be for another. Barney (2008) points out that the key to this strategic resource to meet the characteristics of value, rarity, difficulty of imitation and organization. This set of specifications is called VRIO framework. Moreover there is a consensus on the idea that intangible assets have a greater strategic potential because they have certain special characteristics and they are difficult to trade in what in microeconomic terms is called immobility. Barney (2008) argues that intangible by nature represents many times more generating potential of competitive advantage to meet VRIO aspects of the framework. In this sense the intangible mostly generate value, are particularly rare since they arise from particular ways in which the company has to conduct their operations. They are difficult to imitate, as there is difficulty of identifying and quantifying and most intangibles are related to the social complexity of the business. For these reasons it is not surprising that current academic efforts focus on the source of strategic resources. In this sense, Fong (2005) indicates that the most recent phase of development of the theory of resources and capacities emphasize show in which the company makes and develops its superior assets from knowledge management.

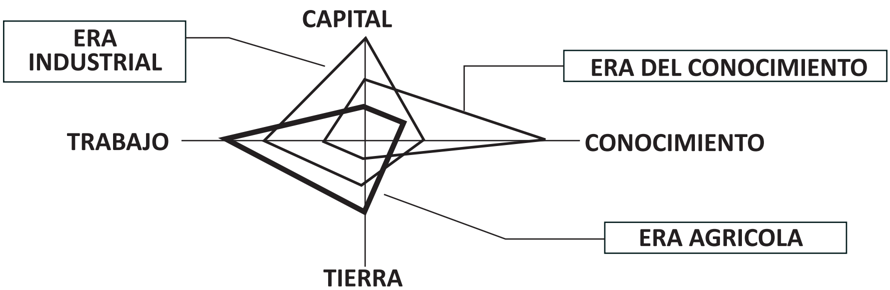
At present much of the work within the strategic research focuses on the recognition of the value of intangibles. The issue has become more important by the increasing use of information systems and the increasing importance of knowledge economies. Peset (2011) noted that the increased importance of information and knowledge modifies the structure of traditional resources of a firm in which the ratio of tangible assets to intangible was greater, in which the value of latter ones was not transcendental regarding its generator potential of competitive advantage.

LITERATURE REVIEW

As mentioned, the strategic discipline using microeconomic theory has managed to obtain and apply its conclusions regarding the resources and capabilities by linking to the source of competitive advantage. However, other related disciplines to company performance have lagged behind in regard to the inclusion of resources and capabilities in theoretical treatments. This is the case of the accounting discipline, which to be governed by a set of rules whose objective is the consistent reporting and in order not to lose objectivity has neglected the importance of recognizing the true value of resources and capabilities for a momentous undertaking, which are mostly intangible.

From an accounting approach it is observed that at the same time it has been increased in the last two decades the importance of intangibles in the business world and its recognition has also become important. The focus is on the different actors involved in the business dynamics that are aware of the value of a firm. Mesa (2012) assures that currently intangible assets are more important than tangible assets, because economies are shifting from a production to a service base, making the man indispensable tool for the generation of value (Figure1).

Fig. 1: Change in production factors



Source: Gorey and Dorant (1996)

One idea concatenated with the above is the one of Peset (2011) who states that in an economy in which knowledge has become the main competitive advantage for firms, the resources on which it is based have acquired primary importance level, both in their assessment and in their management.

Regarding Morettini (2010) ensures that the financial statements to be a really useful instrument for decision-making should recognize the existence of intangible assets whose relevance is important in any organization. Despite the above within the accounting rules governing the preparation of financial information there are still weaknesses that result in some cases in partial recognition of intangible and other in its full concealment. Peset (2011) notes that despite the growing importance of intangible resources, the information provided by companies about those is scarce and biased, which has resulted in making the biggest difference between the value shown in the balance sheet and considered by investors when making decisions.

Within the category of intangibles are commonly found software, research and development costs, patents etc. (Peset, 2011).However, under the strategic focus of resources and capabilities other transcendental assets are found, between creative abilities, innovation, human and intellectual capital, social capital of the company, etc. among others. However, the implications for the recording of such economic impacts are resulting today difficult to imagine given the rules of quantification. Malgioglio, Carazay, Suardi, etal. (2001) argue that the reason why intangibles are not recognized in its entirety is impossible to assign are liable financial value, but this does not it's an excuse in the case of assets determinants of success in today's market.

While accounting has advanced through the times in measurement and recognition of the tangible and intangible elements that make up the heritage of an organization, and also accounting theory partly admitted the undeniable value of hidden assets also known as goodwill on generating results, according to Innocente, Castro and Jerez (2004) the accounting discipline has not been able to specify the most appropriate way in which thesere sources can be incorporated into heritage.

With respect to goodwill other authors more focused on business management such as Edvinsson and Malone (1997) used only the term intellectual capital. These authors define it as "the possession of knowledge, applied experience, organizational technology, customer relationships and skills professionals who give the company a competitive advantage in the marketplace"(Edvinsson and Malone, 1997, p26). The concept of intellectual capital is wide and it's circumscribed in the field of knowledge. Edvinsson and Malone (1997) specify that this capital is not financial, represents the hidden value between the market value and book value, i.e. everything that is not included in the accounts but is valued in the market. In the same Sveiby (1997) sense, states that in the balance sheet of a company there is a visible and an invisible part, the latter is comprised of tangible and intangible assets that are financed by a person who also has a component visible and one invisible.

RESEARCH METHODS

This research uses the analysis of information mainly from the rules of financial information for Mexico. This analysis is focused on identifying deficiencies recognition of the value of intangible assets, based on the features and guidelines identified by the theory of resources and capabilities with reference to previous work reviewed as literature.

REGULATIONS CONCERNING THE ACCOUNTING FOR INTANGIBLES IN MEXICO

Within the financial sector, the recognition of an action can be performed primarily in the pursuit of two objectives: Determining the market value of a company and making decisions for different users related thereto. The first objective is served in different models, which by default on certain requirements of the regulations are not accepted within the recognition criteria of accounting.

In Mexico the *Mexican Council of Financial Reporting Standards* (CINIF) is responsible for the investigation and issuance of financial reporting standards that provide the basis for valuation, presentation and disclosure of transactions, other events and transformations of economic entities. Most of the standards are converging with international standards (IFRS). The financial reporting standards are a set of normative, conceptual and individuals released or transferred to the Mexican Board for Research and Development of Financial Reporting Standards, which regulate the information contained in the financial statements and its notes in one determined place and date, which are widely accepted by the financial and business community (CINIF, 2014).

Within this framework the NIF C-8, which converges with IAS-38, and entered into force for 2009, focuses particularly on addressing the accounting treatment of intangible assets, just as the NIF B-7 is related specifically those originated with an acquiring business. The provisions of these rules apply to all types of entities that issue financial statements under the terms established in NIF A-3 User needs and objectives of financial statements, and acquiring or internally generated intangible assets. NIF C-8 has an objective to establish general guidelines for initial and subsequent recognition of intangible assets obtained individually through a business acquisition, or internally generated

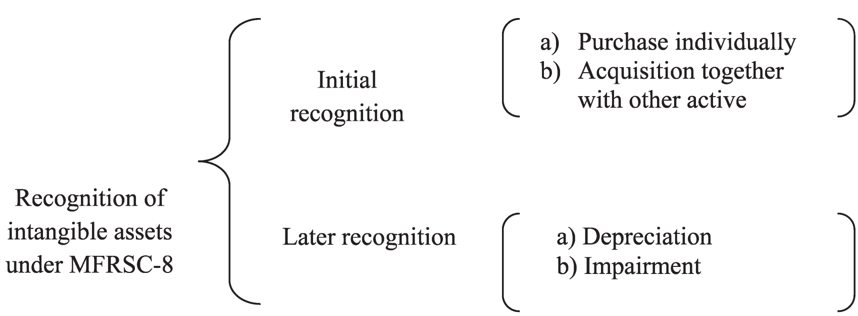


Fig. 2: Recognition of intangible

Source: Authors' calculations based on FRS C-8 through a process of research and development in the normal course of operations of the entity (CINIF, 2014).

According to the standard valuation, initial recognition is defined as the process of determining the monetary value of an intangible input to the accounting system, moreover subsequent recognition is understood by the reduction of the registered value of an asset arising from loss or earning potential to generate future economic benefits that the intangible has given the passage of time or its deterioration.

NIF C-5 defines an asset as a resource controlled by an entity, identified, quantified in monetary terms and reasonably expected, future economic benefits arising from transactions occurred in the past, which have affected the entity financially (CINIF, 2014). NIF C-8 defines intangible assets as "non-monetary identifiable, without physical substance, which will generate future economic benefits controlled by the entity" (CINIF, 2014). An entity in accounting terminology is an independent unit that performs economic activities, which consists of a number of resources that are managed and controlled to achieve the objectives for which it was created.

From the definition indicated above lines identifies that there are three prerequisites for an intangible asset is regarded as such by the NIF.

A. Must be identifiable.
B. Be expected to provide future economic benefits and
C. Should be control over such benefits.

According to the rule for an asset to be identifiable must meet criteria of separation, i.e. can be removed or divided by the company to be sold, transferred, licensed, rented or exchanged, either individually or together with a related contract. Another form of identification is when an intangible arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. The second condition implies that the highly probable future economic benefits flowing from an intangible asset may be present in the income derived from the activity of the company, or as cost savings or other benefits resulting from the use.

The control condition is defined as the power of the entity to obtain future economic benefits originated by assets, which gives the possibility to restrict access to others on the benefits. This ability usually comes from legal rights. With respect to its valuation in the initial recognition NIF-C8 mentions that this depends on the institution to demonstrate that an item meets the definition and conditions as such are described in this statement for an asset to be considered intangible.

A. **Specific Procurement:** In some cases, an intangible asset may be acquired free of charge from the government. This occurs when a government transfers or allocates to an enterprise intangible assets such as: Airport landing rights, rights to use roads and transport, licenses to operate radio or television stations, timber rights to exploit forests or in general rights to access other restricted resources to third parties.
B. **Intangibles in a Business Combination and Goodwill:** As noted NIFC-8 provides several ways of origin of intangible assets, one of which is through purchasing together with a complete business. In this case, the acquirer should recognize all identifiable intangible assets, although the acquired business had not previously recognized because it is internally generated assets that did not qualify for recognition based on the provisions of this standard, in the event that the cost of the asset cannot be determined reliably in value reasonably be recognized within goodwill. Similarly within the particular definitions of the standard is found on the goodwill which is "the excess of the consideration over the fair or specific value of net assets in a business acquisition" (CINIF, 2014). It is an asset that represents future economic benefits arising from other assets acquired which cannot be individually identified and separately recognized.
C. **Internally Generated Intangibles:** CINIF (2014) points out that in evaluating whether internally generated intangible assets qualify for recognition first require identifying its existence, then define the point in time at which it will generate probable future economic benefits and finally quantify its cost reliably. As the basis of the above process the standard recommends that an entity should classify the generation active in the research phase and the development phase.
D. **Subsequent Recognition:** As noted later recognition includes determining the gain or loss of value of an intangible asset arising from its generator potential benefits, this includes two points, first the amortization is the systematic allocation of the cost of an intangible asset over of their useful lives and second recognition of the impairment loss, which quantifies the amount that the future economic benefits of the intangible assets are less than its carrying value on books.

E. **Standards of Disclosure Related to Other Assets:** NIF C-8 recommends, but is not obliged to include information on entities to include information on fully amortized intangible asset that are still in use; and a description of the intangible assets still being controlled by the entity, not recognized as such for not meeting the criteria established and described above. Finally, a diagram for the identification and recognition of an intangible asset is included (Figure 3.) and a list of assets commonly recognized on accounting basis in Mexico starting from the NIF C-8 describing its base recognition.

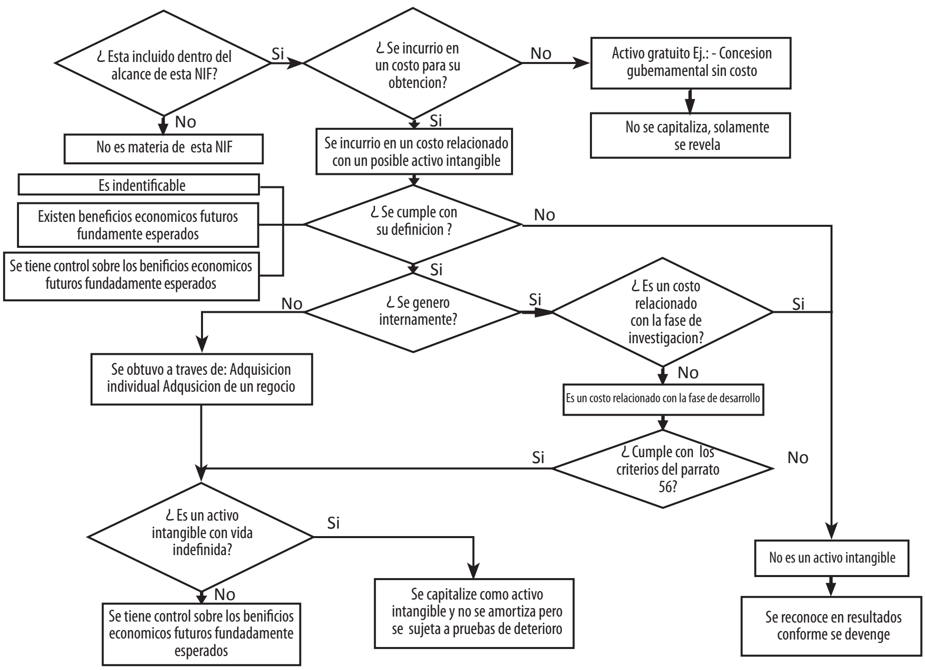


Fig. 3: Diagram of criteria for identifying existence of an intangible asset and its recognition.

Source: NIF C-8 Appendix A issued by CINIF 2014

Table 1: Intangible assets and basis of their recognition.

Type of asset	**Recognition base**
Registered trademarks, commercial brands, and service and certification brands.	Legal and contractual rights.

Market image: Colors of identification, forms of packaging and design, advertisement spots, periodicals headers, presence on geographical and market localities	Legal and contractual rights.
Portal names or network sites in internet	Legal and contractual rights
Agreements of not competition: With sellers of acquired entity.	Legal and contractual rights
Customer lists such as distributors, by mail, subscriptions, advertisement and others, including the clients' base.	No contractual
Contracted production and final orders (backlog)	Contractual
Contracts with clients and the corresponding relationships with clients, such as depositors in banks or relationships with creditors.	Contractual
No contractual relationships with clients, such as sales routs to clients, delivery systems, distribution channels, capabilities to customer service, back up of product service.	No contractual
Plays, opera plays, ballets, etc.	Contractual
Books, magazines, periodicals, manuscripts and other literary material	Contractual
Musical plays, such as compositions, musical scores, song and music propaganda	Contractual
Paints and photographs	Contractual
Audiovisual material, videos, films, musical videos and television programs	contractual
Construction permits	Legal law
Franchises	Contractual
Permits, concessions, transmission rights of cable, radio, television and tele diffusion.	Legal law
Permits or rights of water supply, energy, gas distribution, landing, rents, miners, etc.	Legal law
Technological patents	Legal law
Research and development in process	Legal law

Computing systems (software) and licenses, programs of computing, systems of information, formats, etc.	Contractual
No patented technology. Technical knowledge	Use in practice
Data base, plant titles	Contractual
Confidential processes and formulas	Contractual
Technical drawings, manuals of technical procedures, plans.	Legal law
Creation of manufacture processes, procedures, production lines	Legal law

Source: NIF C-8 Appendix A issued by CINIF 2014

Table 2: Some examples that originate intangible asset sbased on their recognition. Source: NIFC-8 Appendix A issued by CINIF 2014

Description of intangible assets	**Acknowledgement**
Technical knowledge, such as plant engineering and scientific research, whose reasonable values are not quantifiable in reliable form in the business acquisition	Recognized and deteriorates as part of goodwill.
In the business acquisition it is included a list of clients of one entity of direct marketing by mail, waiting to generate future cash flows for seven years. Given that there is an observable market for the list, the entity has no plans to sell the asset.	This asset is acknowledged by separate and amortized in seven years of economic useful life.
A patent expires in fifteen years and it is expected to be a source of cash flows for at least these years	It is recognized separately and it is depreciated in fifteen years of useful economic life.
An acquired registered trademark in the business acquisition has a remnant life of twelve years and it is renewed for an indefinite period at a cost that is expected to be very low. The name protects a product brand, a leader in consumption, which has been the leader in market share for the past eight years. An analysis of studies of the life cycles of product, market, competition, environmental trends and opportunities to expand the brand, indicates that generate cash flow for thirty-five years.	This asset is recognized separately and depreciated over thirty five years of economically useful life.

Acquired exclusive rights granted to generate electrical power for sixty years. The cost of generating hydroelectrically force is much lower than those obtain by alternative sources. Is expected to have a significant demand for electric power in the geographic area surrounding the power plant, for at least sixty years.	This asset is recognized separately and depreciated over sixty years of economically useful life.
License for the radio transmission was paid a large sum expires in five years, but is renewable in definitely for little cost. Acquirer tries to renew the license indefinitely and there is evidence supporting its ability to do so. Cash flows relating to this license are expected to continue indefinitely.	Separately recognized intangible asset and not amortized until its useful life know. Will be tested annually on the existence of indicators of impairment of intangible value.
A trademark acquired in the acquisition of a business has are maiming life of twelve years and is renewable by a period indefinitely at a cost that is expected to be very low. The name protects a product brand, leader in consumption, which has been the leader in market share for the past eight years. An analysis of studies of the life cycles of products, market, competition, environmental trends and opportunities to expand the brand, indicates that generate cash flow for thirty-five years.	This asset is recognized separately and amortize on an economically useful life of thirty-five years.
Acquired exclusive rights granted to generate hydroelectric power for sixty years. The costs of generating hydroelectric power are much lower than those obtain by alternative sources. It is expected to have a significant demand for electric power in the geographic area surrounding the power plant, for at least sixty years.	This asset is recognized separately and depreciated in sixty years of economically useful life.
A radio broadcasting license, for which a large sum was paid expires in five years, but is renewable indefinitely for low cost. Acquirer tries to renew the license as undefined and there is evidence that supports its ability to do so. Cash flows relating to this license are expected to continue effectively.	Separately recognized intangible asset and not amortized until its useful life definitely know. It will be tested annually on the existence of indicators of impairment of intangible value.

An entity will develop software for internal use and incurs disbursements in the preliminary phase of the project where conceptually formulated alternatives, evaluates, determines the existence of necessary technology and makes a final selection of the technology.	The amounts incurred in this phase are recognized in expenses this period, as they are related to a preliminary development of a project (research phase) stage.
Conversion or adaptation of the above information to be used in a new system.	The amounts incurred in this process are recognized in the period expenses.

Source: Norm of financial information C-8

Analysis Results

Based on the analysis of financial reporting standard C-8 which regulates the accounting treatment of intangible assets, it was found that the general idea that the standard handles of these assets does not differ materially from those in strategic management that means intangible resource, both disciplines agree define them as those who bring economic entity resulting from its use and control benefits.

Although from the accounting approach is an emphasis on the quantification of these benefits and the fair value of the intangible, both disciplines refer to the same concept. The indicator of this is the relationship with economic fundamentals which is identified from the two approaches, which deals with the economic impact that an intangible produce in a company or entity.

However NIF C-8 is strict regarding the accounting for an intangible, unlike the definition of these from a strategic point of view. To be valued and presented in the financial statements these must be clearly identifiable or separable. The condition of identification is the point that defines the separation between what is considered an intangible resource in the light of the theory of resources and capacities, and one that can be presented in the financial statements.

According to the framework VRIO a strategic resource must meet the characteristic difficulty of imitation. This requirement collides with the prospect of NIFC-8, because as an identifiable and transferable asset as of the norm, the asset loses generator capacity of competitive advantage to be the imitation object by other companies or market transactions. Under these circumstances the competitive advantage is not sustainable, precluding the continuation of the extraordinary economic benefits in the long term.

Traditionally, the Mexican applied rules allow the recognition of intangible assets that have a physical component or derived from an acquisition, which involves having a cost or market value. The need for an existing observable market for determining an exchange price that intangible asset does not comply with another feature of the framework VRIO, rarity; because if there is a whole market to make transactions with the same means that the intangible is not rare.

The recognition of the monetary value of resources is done by the financial statements. However, given the rigidity of accounting standards based on the reasonable and objective criteria many of the assets are not recognized what some authors call hidden assets. Wherefore are unidentifiable intangibles also called the hidden matching aspects of the frame work VRIO (See table 1).

From the considerations given in standard which most resembles an intangible resource from the resource-based theory is the Goodwill, as this does not require a particular identification based on the difference between the price paid in an acquisition of business and the book value of all total tangible and intangible assets recognized by the seller, but the inability of internally generated goodwill can be recognized by the entity makes an impossible representation of the goodwill of the company through this channel.

Table 1: Comparison between the methods of VRIO frame with the requirements for recognition of intangible assets of NIFC-8

NIF C-8	**FRAMEWORK VRIO**			
	Value	**Rarity**	**Imitation**	**Organization**
Identifiable Intangible Assets	OK	X	X	OK
Hidden Intangible Assets	OK	OK	OK	OK

Source: Own Elaboration

Goodwill recognized in a business combination is an asset representing future economic benefits attainable that does not originate from other assets obtained in the purchase of a business, which is not individually identifiable and recognized separately. The future economic benefits in a business acquisition may result from synergy between the identifiable or other assets that, individually, do not qualify for recognition in the financial statements acquired assets.

NIFC-8 makes some considerations which opens the way to recognition of certain intangibles that are normally hidden. A non-separable intangible asset can be recognized along with the contract for use of other intangible assets; e.g. production knowledge related to the use of a patent may be separately recognized with the use of the patent. However, the fact that an entity has a working structure to carry out its activities does not mean it has an identifiable value to be recognized as an intangible asset, such as the labor force. Only it will have as it relates to intellectual capital, i.e. the knowledge to perform some activity and mediate this contract.

Finally one of the biggest differences between the strategic vision and resource accounting is called subsequent recognition, as this represents the decline in value of an asset over time which is incompatible with the vision it has of a strategic resource, since from this approach a valuable, rare and difficult to imitate, rather than lose value, the same resource increases overtime and the benefits it brings to the firm are long term, hence generate competitive advantage.

CONCLUSIONS AND RECOMMENDATIONS

The results of the analysis of the regulations applicable in Mexico regarding recognition of intangibles show that there is still a gap between the value shown in the financial statements of companies and their true value in light of the theory of resources and capacities. In this regard, it is recognized that the work of generating rules on the one hand preserves the characteristics of objectivity, reliability and comparability of information and on the other hand allows valuation, presentation and disclosure of the value of a set of assets and no clearly identifiable and without observable market is a colossal task. However, given the objective of financial statements to be a useful tool for decision making, is more than justified the task of finding the optimal point at which real value of intangibles is rendered without put aside objectivity.

Derived from this work, clearly insufficient criteria to the inclusion in the accounts of the number of strategic resources of economic entities are identified, so future research may aim to cover nearby methods from a financial or mathematical approach that can represent options for greater usefulness of financial information. Examples of these are the use of a strategic state (Morettini, 2010) and the use of fuzzy math (Mallo, Artola, Morettini, et al 2008).

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chapter

24

Integrated Reporting: An Approach Towards Value Creation

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ABSTRACT

Optimum utilization of natural resources has always been issue of deliberation among scholars. For some time, there has been pressure on companies to take a broader view on these concerns which has led to the concept of sustainability and business responsibility reporting. Initiatives such as the Global Reporting Initiative, Carbon Disclosure Project, FTSE 4 Good and the Dow Jones Sustainability Index have required companies to report on a range of economic, social and environmental indicators. Integrated Reporting (IR) is a relatively new phenomenon in the world of corporate reporting that has gained significant momentum in the last ten years. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term." The aim of the integrated report is to give the stakeholders a holistic view of the company, its future and how it creates value. The two essential concepts of integrated reporting are capitals and the value creation process. (Debaprosanna Nandy, 2015). This paper is an endeavour to study the concept of Integrated Reporting and its practice at global level. This work also seeks to analyse different components of an Integrated Report and its underlying principles. This paper is descriptive in nature and is a result of extensive literature- review.

Key words: Integrated Reporting, Capital, Value Creation, IIRC, GRI, India.

INTRODUCTION

Integrated Reporting (IR) is a relatively new phenomenon in the world of corporate reporting that has gained significant momentum in the last ten years. The International Integrated Reporting Council (IIRC) defines IR as “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term”. The core concept underlying the term “integrated reporting” is providing one report that fully integrates a company’s financial and non-financial (including environmental, social, governance, and intangibles) information. “An integrated report is a single document that presents and explains a company’s financial and non financial (environmental, social, and governance -ESG) performance”. (Jhunjhunwala, Shital) “)

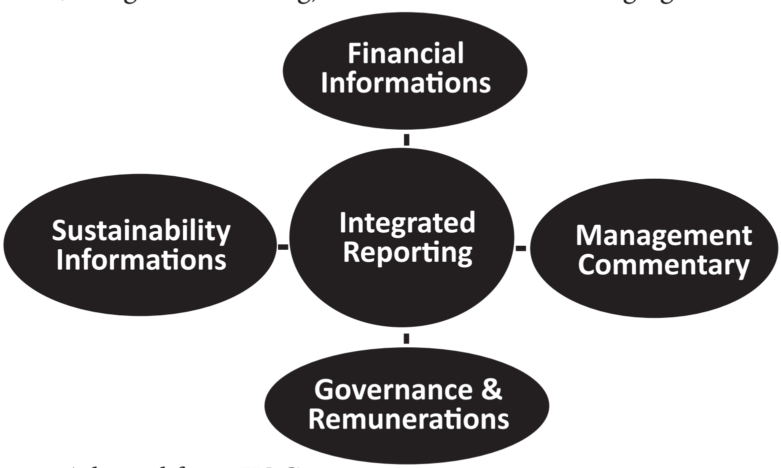
It is important to note that integrated reporting doesn’t only mean merging financial and sustainability reports into one report. Integrated reporting is far more than simply combining a financial report and a sustainability report into a single document. (Michael P. Krzus). Combining the sustainability and traditional annual report in one document is generally seen as just the beginning of integration. The vision of truly integrated reporting requires an articulation of the links between financial and sustainability performance and outcomes. Integrated reporting would prompt companies to *think about their reporting in an integrated manner.* This would include, for example, considering the relationships between a company’s various operating and functional units, the financial and non-financial capitals that a company uses and affects, and the relevance of those factors in demonstrating *how value is created.* We can say that entire concept is based on **Integrated Thinking** and its outcome in form of on **Value Creation.**

INTEGRATED THINKING

Integrated reporting cannot be done properly unless there is integrated thinking within the business. However, a determination to adopt integrated reporting can help to drive changes in integrated thinking such that organizations can pursue the two elements simultaneously. Its true meaning is *to link sustainability strategy to business strategy* and help the company and its stakeholders identify the nonfinancial priority areas. Integrated thinking is a complex picture for any organisation. It is not simply about making clear linear connections between teams. True integration requires links in all directions. This is not only harder to grasp but can seem considerably more challenging to manage. One of the mantras of integrated reporting is about 'breaking down the silos' between teams.

VALUE CREATION

Integrated reporting is a management and communication tool for understanding and measuring how organizations create value now and in the future. At the very core of the concept of IR, is the growing recognition that a number of factors determine the value of an organisation – some of these are financial or tangible in nature and are easy to account for in financial statements. However others, like people, natural resources, intellectual capital, markets, competition, etc., are harder to measure. IR enables an organisation to communicate in a clear manner on how it is utilizing its resources and relationships to create, preserve and grow value in the short, medium and long-term. The goal is not to provide more information, but better information. By gaining a more complete picture through integrated reporting, companies will be able to make better decisions, reduce risk and build a more sustainable long-term.(PWC, Integrated thinking). Have a look on following figures:



Source: Adapted from IIRC

OBSERVATIONS FROM INDIA

Speaking on Integrated Reporting at the 9th Sustainable and Inclusive Solutions Summit organized by the CII-ITC Centre of Excellence for Sustainable Development, Mr U K Sinha, Chairman, SEBI, invited CII to develop a roadmap on integrated reporting for discussion with SEBI. Mr. Sinha clarified that *SEBI will not regulate disclosures that demand integrated reporting.* He stressed on the need to first create awareness and build the environment that is experienced with integrated reporting. Mr. Sinha acknowledged that "Integrated Reporting is the next step in the evolution of reporting and that it marks a fundamental change in the way corporates communicate with their stakeholders. We will be working along with industry to know in an incremental manner about integrated reporting rather than forcing something from our own side… we have been very careful also to see that the trade and industry is prepared for the changes."

Mr. *Y. C. Deveshawar,* Chairman, Advisory Council of the CII-ITC Centre of Excellence for Sustainable Development, emphasized the importance of rethinking capitalism and the role of reporting in it. He argued that the kind of corporate reporting in India and the rest of the developed world cannot be the same because of the different challenges that exist in the developing countries. According to him, *responsible capitalism needs to be progressed with businesses synergizing the creation of shareholder and societal value* in three steps; first with consumer value; second with utilizing resources; and third by replenishing resources. 'By reporting you can stimulate the company to begin to think along these lines,' and therefore he says, 'reporting is a good thing, because *if you can look at your resources like low hanging fruits, you can begin to utilize your resources better.'*

CFOs of some of India's largest companies and the Confederation of Indian Industry (CII), in collaboration with the IIRC have brought **Indian IR Lab**; an initiative which will drive adoption and implementation of IR in an Indian business and regulatory environment. Over 20 leaders from business, academia and regulators met in Mumbai on 19 August 2014 to launch the Indian IR Lab. *Koushik Chatterjee,* CFO of Tata Steel, chairs the Lab, which includes some of India's leading CFOs. Paul Druckman, CEO, IIRC, said, "The Indian IR Lab could not have a better leader than Koushik Chatterjee, one of the most respected businessmen in India. In addition, the energy and commitment of the CII has been pivotal in getting this initiative off the ground."

In India, Tata Steel can said to be pioneer in adopting IR practice.

BACKGROUND & DEVELOPMENT OF IR

'Although some of the seeds for integrated reporting go back as far as John Elkington's concept of the triple bottom line in 1994 and to Robert G. Eccles and PricewaterhouseCoopers on Value Reporting in 1999' and KING II 'Integrated Sustainability Reporting' in 2002 by which a company was expected to report on its commitments in social & environmental areas. The first use of "integrated" in this context is Allen White's discussion of Novo Nordisk's "integrated, balanced, and candid reporting" in a June 20, 2005. The first concrete effort in this direction was taken in South Africa. King Report on Governance for South Africa 2009 (King III), written by Mervyn King which recommended that companies and other organizations produce integrated reports connecting material financial and sustainability information. King III was created to maintain South Africa's leadership in standards and practices for corporate governance." The first attempt to standardize and globalize IR practice was made by IIRC with its preliminary foundation in 2009. In 2011, IIRC launched a Pilot Programme and a 'Discussion Paper toward Integrated Reporting' in the same year. In 2013, the 'Consultation Draft of the International IR Framework' was launched. The percentage of companies publishing reports on their nonfinancial performance varies by country, with European countries, Australia, Brazil, and Japan being more active than China, India, and the United States. The European Commission is considering making ESG disclosures mandatory. Currently, Australia and Brazil have the highest number of companies publishing nonfinancial performance reports. Recent research shows that nearly all of the S&P 500 companies made at least one sustainability-related disclosure in their financial reports, though only seven of those companies claim to have published integrated reports. (Integrated Financial and Sustainability Reporting in the United States, 2013)

GRI

The Global Reporting Initiative (GRI) promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to a sustainable global economy. GRI's mission is to make sustainability reporting standard practice. To enable all companies and organizations to report their economic, environmental, social and governance performance, GRI produces free Sustainability Reporting Guidelines. GRI is a not-for-profit, network-based organization; its activity involves thousands of professionals and organizations from many sectors, constituencies and regions.

OBJECTIVES OF IR

Although integrated reporting is still in its infancy, it is possible *to identify three classes of benefits.* The first is internal benefits, including better internal resource allocation decisions, greater engagement with shareholders and other stakeholders, and lower reputational risk. The second is external market benefits, including meeting the needs of mainstream investors who want ESG information, appearing on sustainability indices, and ensuring that data vendors report accurate nonfinancial information on the company. The third is managing regulatory risk, including being prepared for a likely wave of global regulation, responding to requests from stock exchanges, and having a seat at the table as frameworks and standards are developed

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.
- To foster appreciation, both within the organisation and among its stakeholders, of the extent to which the organization's ability to create and sustain value is based on financial, social, economic and environmental systems and by the quality of its relationships with its stakeholders.

THE INTERNATIONAL INTEGRATED REPORTING COUNCIL (IIRC)

The International Integrated Reporting Council (IIRC), of which Mervyn King is chair, was convened in order to aid businesses and investors as they begin to adopt Integrated Reporting. Launched in 2010 by HRH the Prince of Wales with international partners, the IIRC was formerly known as the International Integrated Reporting Committee, being renamed in 2011. The Prince's Accounting for Sustainability Project (A4S) acted as the Secretariat for the IIRC until January 2012. It aims to create a globally accepted framework for a process that results in communications by an organisation about value creation over time. The IIRC is a coalition of businesses, regulators, securities exchanges and not-for profit groups, including the World Resources Institute. Crucially, it also includes participants from the world of financial reporting such as the International Accounting Standards Board, US Financial Accounting Standards Board, International Organization of Securities Commissions, and the "big four" accounting firms. The IIRC brings together a cross section of representatives from corporate, investment, accounting, securities, regulatory, academic and standards et ting sectors as well as civil society. It comprises a Steering Committee, a Working Group and a three task forces (dealing with content development, engagement and communications, and governance).

Guiding Principles: (As laid down by IIRC)

- Strategic focus and future orientation
- Connectivity of information
- Stake holder relationships
- Conciseness
- Consistency and comparability.

The IR reporting framework covers following parameters:

- **Organisational overview and external environment** – What does the organisation do and what are the circumstances under which it operates?
- **Governance** – How does an organisation's governance structure support its ability to create value in the short, medium and long term?
- **Business model** – What is the organisation's business model?
- **Risks and opportunities** – What are the specific risk and opportunities that affect the organisation's ability to create value over the short, medium and long term and how is the organisation dealing with them?
- **Strategy and resource allocation** – Where does the organisation want to go and how does it intend to get there?
- **Perfomance** – To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- **Outlook** – What challenges and uncertain ties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

CAPITALS IN IR FRAMEWORK

The capitals are the resources and the relationships used and affected by the organisation In the IR framework, the capitals are the stores of value (or relationships) that are input into a company's business model. All organizations depend on various forms of capital for their success. The Framework describes six categories of capital. An organization is supposed to use these capitals as benchmark while preparing an integrated report. However, these categories of capital are not required to be adopted in preparing an entity's integrated report, and an integrated report may not cover all capitals – the focus is on capitals that are relevant to the entity.

Natural capital: Natural Capital serves as the foundation for the entire economic and social system. It provides resources that often cannot be replaced and is essential for the functioning of the economy as a whole. Resources include renewable and non-renewable resources. When it comes to determining whether natural capital is material to an organization, relevant factors must be brought to bear. These include the level of reliance on natural resources, the environmental impact of its productive process, and what the organization has to do to operate within the limits imposed by the environment. Natural capital (clean air, land, water, forests, biodiversity etc) would involve reporting issues related to company's understanding of scarcity of these natural resources, climate change strategy, carbon emission, water consumption and recycling etc

Social and relationship capital: This resource includes web of relationship between an organization and all its stakeholders. These relationships include ties to the community, government relations, customers and supply chain partners. Social capital (employees, community, customers) would include reporting issues related to employee wellbeing such as adoption and enforcement of human and labour rights, community engagement programs etc.

Intellectual capital: Intellectual Capital comprises of intangibles which are result of brand and reputation of the organization. It also includes resources such as patents, copyrights, intellectual property and organizational systems, procedures and protocols. These can provide significant competitive advantages. They can also have disadvantages, such as the negative brand equity attributed to major polluters or ill-reputed shareholders

Human capital: It refers to the skills and know-how of an organization's human resources as well as their commitment and motivation and their ability to lead, cooperate or innovate. The success story of any organization is directly related to proper management and development of its human resources. Excessive employee turnover or inadequate remuneration policies can damage reputations and impair an organization's ability to create value.

Financial capital: Conventionally, the success of any organisation is directly related to its financial performance. It includes funds obtained through financing or generated by means of the organization's productivity. Financial capital (funds owned or borrowed) consists of reporting issues like financial risks and liabilities associated with government regulations, stock markets. Organizations need to understand and reflect this interdependence in their integrated reports. It's important to show that financial capital is converted into other forms of capital, assigning value to the latter, and explain how these other forms of capital will generate financial returns over the short, medium and long term.

Manufactured capital: Manufacturing capital means physical infrastructure such as buildings or technology equipment and tools. Manufactured capital may be owned by the organization or by third parties, e.g., ports and other public infrastructure. They contribute to an organization's productive activity. It follows that their efficient management can reduce the use of resources and drive innovation that leads to greater flexibility and sustainability.

Value is created or destroyed by an organization when it uses and affects the various capitals. The capitals store value. Changes in the value of stores translate into increased tangible and intangible asset valuations and into externalities. The connectivity and interdependence among the various capitals or inputs — specifically their influence on the organization's long-term financial performance — should be communicated in an integrated report.

CHALLENGES

Though a beneficial concept, integrated reporting has many challenges associated with it. The foremost is lack of any global standard for integrated reporting. The challenges in convergence and implementation of IR are being discussed below:

No Universal Standards: Currently there doesn't exist any internationally accepted standard/framework for integrated reporting. Management will find, however, that determining the relationship between financial and non-financial outcomes is easier said than done. Just as there is no globally accepted standard for integrated reporting today, companies find that all too often good metrics either do not exist, or are very hard to develop. Christopher Ittner and David Larcker found that less than 25 % of the companies actually built and verified cause-and-effect diagrams to identify relationships between for example, corporate governance, tolerance for risk, and executive compensation. (Ittner, Christopher, and Larcker, David. "Coming Up Short on Nonfinancial Performance Measurement", Harvard Business Review).

Measurement & Monetization of Value: Value is created or destroyed by an organization by how it uses and affects the various capitals. In general, the value created by an organization materializes in tangible and intangible assets when it affects the capitals owned by the organization. Challenge organizations must first overcome is to effectively measure and monetize their value. To start with, there are many techniques, but no consensus, on how to measure and monetize key impacts particularly natural and social capital. This lack of a global monetization guideline therefore limits consistency and comparability of monetized outcomes between organizations.

(a) **Monetization of intangibles:** It is possible to measure changes in the value of intangibles as a result of a sustainable growth strategy or a specific initiative. These initiatives can be communicated to show the value of intangibles in an integrated report.

(b) **Monetization of externalities:** The extended value an organization produces or destroys impacts the value of its intangibles such as brand reputation or license to operate. It can also reveal the long-term feasibility of the business model and whether it relies excessively on a contribution from society or the environment. There are a wide variety of externalities produced as a consequence of business activity. The first challenge lies with acknowledging or identifying their existence. When the externality is destroying society's value (e.g., global warming or biodiversity loss), the challenge is how to mitigate the impact and develop a "profit and loss" approach to identify mitigation costs and compare them with the value for society of implementing mitigation actions.

Reliability: The biggest challenge facing integrated reporting is the question of providing assurance for the reported data i.e. reliability of the information reported by companies. There are many institutions that provide assurance for financial reporting. But, for non financial report, the search is still on. And even though when assurance is provided, it is not done with the same degree of rigor as the audit of a financial report.

Consistency & Comparability: The lack of a framework and standards for nonfinancial information makes it difficult to compare the performance of different companies, a core feature of investment analysis.

Another limitation is the small number of companies practicing integrated reporting, and the fact that it will likely be adopted across industries and countries to varying degrees.

Complexity: Measuring and quantifying nonfinancial metrics and then integrating them with financial performance are complex and daunting tasks. Financial reporting is much more mature and comparatively easier to capture. Data sources for sustainability reporting are diverse, inconsistent and systems for consolidation and reporting are less automated.

Materiality: All disclosure indicators may not be material for all firms. Both financial and sustainability reporting serve multiple and diverse stakeholders such as investor, employee, government, community etc. Though some of these stakeholders overlap, integrated reporting may not appeal to all stakeholders. Materiality will differ depending on the industry the company operates in.

Language barriers: One of the main obstacles to 'Integrated Reporting' is the language of both reporting and business, which is obscure and lacks. The phrase 'integrated reporting' itself sounds both uninspiring and ambiguous. Trying to achieve internal acceptance and commitment is a hard nut to crack. Even trying to break down integrated reporting into its component parts or defining it in some way can hinder rather than help its adoption. The most convincing answer to these linguistic challenges lies in the materiality process. Organisations need to identify, manage and report on those issues that are most material to them.

CONCLUSION

Corporate reporting will continue to evolve with the changing business environment and stakeholder expectations. Integrated reporting is such a latest change. It is more than creating a comprehensive annual report. It can be used as an effective governance tool for performance-oriented management. The IR, as framed by the International Integrated Reporting Council, can be considered the cutting edge and probably the future of corporate disclosure. The outcome of this process, an integrated report, is a concise communication about how an organization's strategy, governance, performance and future prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. The integrated reporting concepts may provide companies a useful framework when considering how to best disclose environmental, social, and governance matters that they have decided to report. Companies may also improve their access to capital and achieve strategic business benefits from integrated thinking. Integrated reporting will help analyze company's level of control and influence on various forms of capital and whether its activities serve to increase or decrease the stock of various forms of capital.

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chapter 25

Criticisms and Disclosure Practices of Integrated Reporting

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ABSTRACT

The value of an organization depends upon the number of factors, financial or tangible in nature and intangibles like people, natural resources, intellectual capital, markets and competition etc. It is easy to account of the financial or tangibles, where as it is difficult to measure the intangibles. Then the concept of integrated reporting was emerged. The study carried with the following objectives to identify the mode of disclosure and criticisms of integrated reporting and interpret analyze the perceptions of respondents regarding the various issues of an integrated reporting along with the identification of the possible strategies to create value for stake holders with suitable suggestions to strengthen the integrated reporting system. The data collected from the 160 respondents through the structured questionnaire on issues of disclosure practices and criticisms of an integrated reporting system. The review of literature and theoretical frame work obtained from the published journals and text books etc., The SPSS 16.0 software utilized and applied the techniques of frequency percentages, descriptive statistics and regression analysis to derive the inferences. The study found that the respondents suggested to develop the necessary reporting system as a strategy to view a comprehensive integrated reporting system and also the majority of the respondents opined that reporting of a firms should be integrated in to a fully integrated in to a single integrated report rather than shown on the website, separate report and not as a part of the annual report and this study also observed that that the information

was not always being presented and communicated in a truly integrated fashion followed by the inability to facilitate the comprehensive review of business activities, setting measurable non-financial targets, decrease in the utility of report, difficulty to access the non financial information and finally regulations may not encourage the integrated reporting system. Finally, it can be concluded that the most of the respondents agreed that to adopt an integrated reporting system which is meant for blend of financial and non financial information. It is suggested that to project the information in to a single integrated report instead of existing reporting system. Every company should follow the practices of integrated reporting to project the financial as well as non financial information which is useful to the stakeholders, investors, policy makers, government banks and financial institutions.

Key Words: Creating Value, Non-Financial Information, Strategies, Disclosure Practices and Criticisms.

INTRODUCTION

The value of an organization depends upon the number of factors, financial or tangible in nature and intangibles like people, natural resources, intellectual capital, markets and competition etc. It is easy to account of the financial or tangibles, where as it is difficult to measure the intangibles. Then the concept of integrated reporting was emerged.

REVIEW OF LITERATURE

Sound financial health, high quality reporting, real time reporting, ensuring adequate controls and accurate reporting, review periodically under IR model or frame work (Acca, 2013) formation of six types of capital, interconnection between the external environment, organizational capital and the business model, determination and reporting of materiality (Deloitte, 2014), risks associated with water usage, efficiency, ensure sustainability and governance to stake holders (reasons for IR) shortage of natural resources, inadequate risk management strategies (Criticisms) (E&Y,2013) reflection of a balanced and integrate approach to strategy, governance, performance and long term viability (IODSA2010) convey a more complete story of value creation (CIMA international 2013)IR useful to know the cause and effect between financial and non financial performance measures (kirzus, 2011) integrated reporting is a tool that communicates the long term value of a company (Ministry of Economics, Japan (2014) internal auditors play an important role in terms of assurance and sustainability indicators (The Institute of Internal Auditors 2013) .Submitted overview of the origins of IR and it is deemed to be public interest (Owen

2013) increased market share responsible for sustainability strategy (Eccles etal 2013) environmental and social aspects of integrated reporting creates a company's market value (Kosovic and Patel, 2013) wastes usage, hazardous waste, waste management, product formulations, employment human rights, ethics considered as a parameters of IR (Investor Responsibility Research Centre Institute, 2013) emphasized on how the integrated reporting change and influence the strategy and the business model of a company.

HISTORY AND EVALUATION OF INTEGRATED REPORTING

Price Water House Coopers (PWC) (1999) generated the corporate reporting frame work or value reporting frame work to extract value, performance, market overview, strategy and structure of the organization. The South African governance code was prepared by the Institute of Directors of South Africa (KING II). The first corporate integrated report was prepared by the NOVOZYMES a Danish enzyme company in the year 2000. The Magna Rautenbach opined that integrated reporting was useful to the organization and its stakeholders and he wrote a message on Integrated Sustainability Accounting, Assurance and Reporting (ISAAR). The term "Indicators That Count" includes work place, community, environment and market place as a set of impact indicators was coined by the Business Impact Review Group in the year 2003 to furnish non financial components of business along with performance indicators and projects the firm's present and future performance through the Enhanced Business Reporting Consortium (EBR 360). The time scale experimentation was made in the year 2004. Vancity disclosed that 12 organizations adopted. Integrated reporting system based on an exploratory research had taken place in the year 2005 Allen white stressed on the agenda for integrated reporting. The voluntary global frame work framed to corporate performance to stakeholders and other stake holders through the (WICI) World Intellectual Capital Initiative. The princes accounting for sustainability project (A4s) suggests a connected reporting frame work, for reporting on core environmental issues such as waste water, energy and carbon emissions in the year 20007. Alan Willis proposed a corporation 20/20 principle of governance which integrates the financial and non financial information in one report. KPMG proposed that sustainability which was meant to frame sustainability reports to integrate financial and non financial information in a single report. The corporate register awarded first annual award for best integrated report from the year 2008. Under the chairmanship by Prof. Mervyn King south Africa established a multi organization Integrated Reporting Committee (IRC) to develop a frame work for an integrated report for listed companies. The official formation of IIRC had taken place on 2nd august 2010 through the international integrated reporting committee. The first integrated reporting pilot programme conference was convened in Rotterdam on 17 and 18th October 2011. It comprised both business network and investor network. The discussion paper was made as on sep 12, 2011 and Black Sun published on understanding transformation building the business case for integrated reporting, then integrated reporting data base was emerged, but as on 26th Nov, 2012 the IIRC released a prototype of international integrated report frame work. The IIRC framed and released the consultation draft of international integrated frame work in the year 2013. An integrated report is a synthesized communication regarding organizations strategy, governance performance and prospects leads to the creation of a value over the short, medium and long term.

OBJECTIVES OF THE STUDY

1. To identify the mode of disclosure and criticisms of integrated reporting.
2. To interpret analyze the perceptions of respondents regarding the various issues of an integrated reporting.
3. To identify the possible strategies to create value for stake holders.
4. To offer a suitable suggestions to strengthen the integrated reporting system.

METHODOLOGY OF THE STUDY

The data collected from the 160 respondents through the structured questionnaire on issues of advantages, challenges, strategies, disclosure practices and criticisms of an integrated reporting system. The review of literature and theoretical frame work obtained from the published journals and text books etc., The SPSS 16.0 software utilized and applied the techniques of frequency percentages, descriptive statistics, chi-square analysis and regression analysis to derive the inferences.

Section A: Personal Profile of the Respondents

Table 1: Distribution of the Respondents by their Designation

Designation		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Chartered Accountant	50	31.2	31.2	31.2
	Accountant	55	34.4	34.4	65.6
	Academician	55	34.4	34.4	100.0
	Total	160	100.0	100.0	

Table 1: This table narrates about the designation of the respondents. The numbers of chartered accountants (CAs) were fifty and the fifty five numbers of respondents selected from the accounts as well as the academicians.

Table 2: Distribution of the Respondents by their Age

Age		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-40	118	73.8	73.8	73.8
	41-60	24	15.0	15.0	88.8
	61-80	17	10.6	10.6	99.4
	Above 80	1	.6	.6	100.0
	Total	160	100.0	100.0	

Tables 2: This table discloses the distribution of the age of respondents, 73.8 percent of the respondents represented from the age group of 21-40, followed by the 41-60 and 61-80. Hence, it can be inferred that the majority of the respondents belonged to the age group of 21-40 years.

Table 3: Distribution of the Respondents by their Income

Income		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20,001-40,000	119	74.4	74.4	74.4
	60,001-80,000	18	11.2	11.2	85.6
	Above 80,000	23	14.4	14.4	100.0
	Total	160	100.0	100.0	

Table 3: 74.4 Per cent of the respondents belong to the income group of 20,001 - 40,000 followed by the above 80,000 and in between 60,001 - 80,000. Hence, it can be concluded that majority of the respondents represented from the income group of 20,001- 40,000.

Table 4: Distribution of the Respondents by their Educational Qualifications

Educational Qualifications		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CA	51	31.9	31.9	31.9
	Accountant	48	30.0	30.0	61.9
	Academician	61	38.1	38.1	100.0
	Total	160	100.0	100.0	

Table 4: The above table reveals that majority of the respondents belonged to the academicians, followed by the Chartered Accountants and Accountants.

Table 5: Distribution of the Respondents by their Gender

Gender		**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Male	77	48.1	48.1	48.1
	Female	83	51.9	51.9	100.0
	Total	160	100.0	100.0	

Table 5: This table says that 51.9 percent of the respondents represented from the female category and rest of the percentage (48.1 percent) of respondents belonged to the male category. Hence, it can be concluded that the majority of the respondents belong to the female category.

Table 6: Descriptive Statistics of Disclosure Practices of Integrated Reporting

Disclosure Practices of Integrated Reporting	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Fully Integrated-A Single Integrated Report	160	3.00	5.00	4.5000	.86874
Integrated and separated	160	3.00	5.00	3.7688	.82585
Separate Report	160	3.00	5.00	3.5000	.86874
Separate on the web	160	4.00	4.00	4.0000	.00000
Valid N (list wise)	160				

Table 6: This table shows the mode of disclosure practices of integrated reporting. The majority of the respondents opined that the reporting of firms should be fully integrated and disclosed as a single integrated report and it was a most preferred disclosure practice, followed by the furnishes on the web, integrated and separated, separate report and not as a part of the annual report. Hence, it can be concluded that the most preferred disclosure practice was the fully integrated as a single integrated report.

Table 7: Descriptive Statistics of Criticisms of the Integrated Reporting

Criticisms of Integrated Reporting	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
The information is not always being presented and communicated in a truly integrated fashion.	160	4.00	5.00	4.7687	.42296

There seems to be difficulties with reluctance to setting measurable non-financial targets	160	3.00	5.00	4.2125	.46767
There is some assurance of non-financial information but this is not wide spread	160	3.00	5.00	3.9750	.72641
There is no clear link between stakeholders and strategy needs to be more clearly defined	160	2.00	5.00	3.9438	.74603
Decrease in the utility of the reports as a result of generic disclosures (Lack of context)	160	2.00	5.00	4.1625	.59227
Failure to provide a comprehensive review of business activities	160	3.00	5.00	4.6875	.52829
Regulators may not encourage the integrated reporting system	160	2.00	5.00	3.7625	1.07859
Valid N (list wise)	160				

Table 7: This table shows the criticisms of the integrated reporting. The favoured criticism by the respondents was full of the information is not always being presented and communicated in a truly integrated fashion, followed by the inability to frame a comprehensive review of business activities, difficulty in setting measurable non-financial targets, decrease the utility of the report due to the generic disclosures, assurance of a non-financial information, and no clear link between stakeholders and strategy needs to be more clearly defined and regulators may not encourage the integrated reporting system.

Table 8: Test of Variability in Creating Value of Stake Holders through the Different Independent Variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000a	1.000	1.000	.00000

a. Predictors: (Constant), Develop the necessary reporting system, Define clearly the companies goals and strategies, Support of the relevant staff

Table 8: This table shows the variability in creating value for stakeholders through the various independent variables, develop the necessary reporting system, define clearly the companies goals and strategies and support of the relevant staff The 100 percent of variation in creating value for stake holders was explained by develop the necessary reporting system, define clearly the companies goals and strategies and support of the relevant staff

Table 9: Test of Difference in Creating Value to the Stake Holders to the Various Independent Variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.000	3	10.000	.	.000a
	Residual	.000	156	.000		
	Total	30.000	159			

a. *Predictors:* (Constant), Develop the necessary reporting system, Define clearly the companies goals and strategies, Support of the relevant staff.

b. Creating Value to the Stakeholders.

Null Hypothesis (H0): This is no significant difference between the creating value for stake holders to the other variables develop the necessary reporting system, define clearly the companies goals and strategies and support of the relevant staff.

Alternative Hypothesis (Ha) : There is a significant difference between the creating value for stakeholders to the develop the necessary reporting system, define clearly the companies goals and strategies and support of the relevant staff.

ANALYSIS

The sum of the regression value was the much more than the sum of the residual value at *degree of freedom* was 159 and the *level of significance* was 0.000. Hence, it can be concluded that the proposed null hypothesis was rejected and alternative hypothesis was accepted and confirmed that there was a significant difference between the creating value for stakeholders to the develop the necessary reporting system, define clearly the companies goals and strategies and support of the relevant staff.

Table 10: Test of More Favorable Response towards the Creating Value for Stake Holders through the Various Independent Variables.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.000	.000		.	.
	Support of the relevant staff	-1.809E-15	.000	.000	.	.
	Define clearly the companies goals and strategies	1.000	.000	.974	.	.
	Develop the necessary reporting system	1.000	.000	1.154	.	.

a. *Dependent Variable:* Creating value for stakeholders

Table 10: This table shows the favourableness towards the creating value for stakeholders. The most preferred response was developing the necessary reporting system followed by the defined company goals and strategies and support of the relevant staff.

FINDINGS OF THE STUDY

1. The respondents suggested to develop the necessary reporting system as a strategy to view a comprehensive integrated reporting system followed by the link between the financial and non financial metrics, clearly defined goals and strategies etc.,
2. The majority of the respondents opined that reporting of firms should be integrated in to a fully integrated in to a single integrated report rather than shown on the website, separate report and not as a part of the annual report.
3. The respondents opined that the information was not always being presented and communicated in a truly integrated fashion followed by the inability to facilitate the comprehensive review of business activities, setting measurable non-financial targets, decrease in the utility of report, difficulty to access the non financial information and finally regulations may not encourage the integrated reporting system.

CONCLUSION AND SUGGESTIONS

Finally, it can be concluded that the most of the respondents agreed that to adopt a integrated reporting system which is meant for blend of financial and non financial information. It is suggested that to project the information in to a single integrated report instead of existing reporting system. Every company should follow the practices of integrated reporting to project the financial as well as non financial information which is useful to the stakeholders, investors, policy makers, government banks and financial institutions. The organization should include the following factors i.e. (Environmental management, climate change, water use, hazardous waste management. Waste management, product formulations, waste savings, employment, human rights, ethics, financial risk, product development, consumer requirements, capacity expansion in million tones, sales and production in volume, health and safety, business model, risks and opportunities, strategies, performance and final outlook) in frame work of integrated reporting to view the overall position of the concerned organization.

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chapter 26

Reporting for Research and Development Cost in Knowledge Economy – An Indian Perspective

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ABSTRACT

Innovative activities and capabilities are essential for economic growth and development of a country. Empirical studies point towards a direct relationship between research and development (R&D) and growth of business. Research and development expenditures are essential in many businesses such as Pharmaceutical, Information Technology, Automobile and Infrastructure companies to grow in the knowledge and competitive era. In many businesses their survival and growth is more or less depends upon the level of research and development efforts made by the firms as a part of in-house activities or they are acquiring some research and development, know how from outside agency. Accounting for research and development cost is gaining importance in the last two decade because of the globalization of the business and economic activities. Due to global pressure and high level of competition many industries they are spending a significant percentage of their revenue for their in house research activities. This research paper is an attempt to explain the conceptual framework of accounting for research and development cost with specific provision of AS-26 related the Intangibles assets (including R&D), provisions of IAS-38. It also explains reporting and discloser methods and strategy of various R& D cost practices adopted by Indian companies. It was observed that Automobile companies contributed more to the R&D expenses than IT companies.

Keywords: Research and Development Cost, Innovations, Reporting and disclosure AS-26, IAS-38.

INTRODUCTION

Financial accounting and reporting practices have traditionally provided a basis for evaluating a company's business performance. The fundamental objective of financial accounting is to provide users of financial statements with useful information for the purpose of efficient and effective decision making[1]. During the last two decades most industrialized economies have progressively moved towards a knowledge-based rapidly changing economy where investments in human resources, information technology, R&D and advertising have become essential in order to strengthen a firm's competitive position and ensure its future viability[2].

Innovative activities and capabilities are essential for economic growth and development of a country. Empirical studies point towards a direct relationship between research and development (R&D) and growth[3]. Research and development expenditures are essential in many businesses such as pharma, Information Technology, Automobile and Infrastructure companies to grow in the knowledge and competitive era. In many businesses their survival and growth is more or less depends upon the level of research and development efforts made by the firms as a part of in-house activities or they are acquiring some research and development, know how from outside agency. Under Income tax Act also major taxation benefits are given by the Government to promote research and development activities within the industry for creation of knowledge, innovations and a new product for which commercial value is being existed.

1.1 SIGNIFICANCE OF R & D ACCOUNTING

The capability of companies to create economic value, i.e. customer value, shareholder value, and stakeholder value, is increasingly dependent on intangible assets—on immaterial resources and production factors. Today, intangible assets are principally responsible for a company's capacity to innovate and thus for its capability to create added value in a highly dynamic, highly competitive global business environment and to make a difference[4]. In India research and

[1]Horngren, Harrison, Fraser and lzan, H (1997).

[2]Blair and Wallman (1997).

[3]EXIM Bank: Research Brief Strengthening R&D Capabilities in India December2006, No 28.

[4]Intangible Assets-Based Enterprise Management— A Practical Approach Juergen 11. Daum Chief Solution Architect, Business Solution Architects Group, SAP EMEA Region, Neurottstrasse 15a, D-69190 Walldorf Germany.

developmental activities are lower as compare to other countries. As Balwant kulkarni[5], pointed that in India persons engaged in R&D in India per every 1 million people are only 119, while the same is 175 in China; S Korea 3723; US 4,628; Japan 5,300, as per a survey carried out in 2006.

Accounting for research and development cost is gaining importance in the last two decade because of the globalization of business and economic activities. Due to global pressure and high level of competition many industries they are spending a significant percentage of their revenue for their in house research activities. Exhibit I indicates the classification of IA and the importance of research and development expenditure in a business enterprises. Under the field of accountancy, according to the nature of the expenses related with the research and development, they are capitalized or charged to the current year's revenue account. It's a major accounting debate that when research and developmental expenses are treated as capital expenditure or charge to revenue accounting, because R&D can involve quite substantial amount of expenditure. This expense, if the R&D programme is successful, can generate huge economic benefits to the business. However, if the programme is failures, there can be virtually no economic benefit in spite of large investment. As suggested by the Rao Raghavendra[6] the challenges with the accounting of research and development expense is to decide whether to charge it off in the income statement immediately as it is incurred, or to create an intangible asset out of this expenditure. If the expenditure is huge and is charged off to income statement in the period it is incurred and the programme turns out to be successful earning huge economic benefits in the later periods, then, there will be mismatch between the periods in which benefits are recorded and their related expenses are booked.

1.2 Research Phase

This phase is important for basic research point of view. Under research phase industries enhancing their knowledge related with process, methodologies and various alternative methods for manufacturing and supply of services. It's difficult for researching corporate to demonstrate that whatever knowledge acquires under this phase, how they can apply the knowledge for the commercial operations in the future and gain economic benefits and competitive advantage over competitors.

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[5]Balwant kulkarni, (2010): "Value premises for good performance in discharge of CSR" The Chartered Secretary, Vol XL No 05, May, published by The Institute of Chartered Secretaries of India (ICSI), New Delhi,

[6]P. V. Raghavendra Rao (2010): 'Research and Development Expenditure Accounting-Capitalise or Charge Off'., The Chartered Accountant, Vol. 59 No 08 pp 269-272.

1.3 Development Phase

Development phase is the succeeding stage of research phase. Whatever knowledge gain by the corporate either by its own research or acquire from others, they are testing commercial viability of knowledge. Under this phase new knowledge is used to develop an improved or new product, process, method, etc to make its use for economic gain or minimized competitions with improved technology. This phase involve huge amount of expenditure, if the R&D programme is successful, can generate huge economic benefits to the business. However, if the programme is failures, there can be virtually no economic benefit in spite of large investment.

When we go through with the earlier literature we found that companies operating in high-tech industry sector (information technology/ telecommunications services) recognize more technology-related expenses and R&D. On the other hand, in the consumer product industry sector, brands are regarded as a key competitive factor which influences consumer preferences for a product and therefore the sales of the company and subsequently are disclosed more often by companies in the consumer product sector[7]. Table 1 indicates the accounting for internally generated Intangibles and R& D assets. There are many countries they are not disclosing or limited reporting of R&D assets countries such as Canada, China, Denmark, Germany, Israel, Malaysia, Norway, Saudi Arabia, South Africa, United Kingdom, United States etc. but some countries specially European they are reorganize with short amortization period such as European Union Directives, Greece, Italy, Japan, Netherlands, Sweden etc. Similarly developing countries voluntary disclosing R&D assets under the provision of accounting standard such as Australia, Belgium, Brazil, Czech Republic, Finland, France, India, Luxemburg, New Zealand, Spain etc.

For example the Netherlands allows the capitalization of both research and development costs while New Zealand allows the capitalization of development costs only. Germany on the other hand requires the expensing of both. It is worth noting that both Australia and the United Kingdom allow for the capitalization of the costs of brand development, unlike the United States.

[7]Stolowy, H., Haller, A. & Klockhaus, V. (1999). Accounting for brands in IAS 38 of IASC (intangible assets) compared with French and German practices: an illustration of the difficulty of international harmonization. 8 Erickson, G., & Jacobson, R. (1992). Gaining comparative advantage through discretionary expenditures: the returns to R&D and advertising. Management Science, 38,1264-279.

Table 1: Accounting for Internally Generated Intangible Assets and R&D Assets.

Particulars	**No or Very Little recognition**	**Recognition with short amortization period**	**Voluntary choice or discretion under an accounting standards to recognize**
R&D Assets	Canada, China, Denmark, Germany, IASB, Israel, Malaysia, Norway, Saudi Arabia, south Africa, United Kingdom, United States.	European Union Directives, Greece, Italy, Japan, Netherlands, Sweden.	Australia, Belgium, Brazil, Czech Republic, Finland, France, India, Luxemburg, New Zealand, Spain.
Internally Generated Assets	Canada, China, Denmark, Germany, IASB, Israel, Malaysia, Norway, India, Japan, Spain, United Kingdom, United States.	Netherland, Saudi Arabia.	Australia, Belgium, Bulgaria, Brazil, Czech Republic, Finland, France, India, Luxemburg, New Zealand, Spain Italy Malaysia, European Union Directives.

Source: Anne Wyatt & Margaret A Abernethy (2003): Framework for Measurement and Reporting in Intangible Assets, Intellectual Property Research Institute of Australia Working Paper No. 12/03.

1.4 Types of R&D activity

The following are some of the areas towards which R&D effort is directed: (a) Improvements in existing products, (b) Design and development of new products, (c) Development of new processes, (d) Adaptation of imported technology to suit Indian conditions, (e) Import substitution of material/ components, (f) Conservation of energy, (g) Market research for existing and new products

1.5 Need for fresh Approach in accounting

According to the Monograph on Accounting for Research & Development Costs, The following developments during the last 20 years have forced a paradigm shift in the approach of accounting for private sector industry to R&D activity.

i. Rapid technological advancement, especially in the information technology, electronics, biotechnology and pharmaceutical sectors.
ii. Number of multinational companies setting up units in India with huge investment and infrastructure exclusively for R&D

iii. Multinational pharma companies outsourcing R&D activity in India
iv. Globalization of trade resulting in cut throat competition and the advent of the WTO regime
v. Changes in patent laws/trade related intellectual property rights (TRIPS) the number of patent filings by Indian companies.

All the above developments have collectively led to a shift in emphasis from pure accounting and tax planning considerations to strategic planning and survival in a globally competitive market.

2. Review of Literature

There are several studies conducted by the researcher in abroad regarding the relevance of disclosure and reporting of research and development in the financial statements. **Erickson and Jacobson (1992)**[8] found a positive correlation between research development, Return on Assets (ROA), and various return indexes. However, there was a high level of uncertainty with regard to R&D and in the absence of plans and integrated management of R&D resources would tend to be wasted, which would in turn defer corporate development. **Amir and Lev (1996)**[9] suggested, traditional accounting information lacks value relevance in today's fast changing, technology based industries. In the current markets measures such as penetration or potential number of customers that proxies for intangibles are fundamentals determines of the corporate value in such industries. **Basant and Fikkert (1996)**[10] discussed the innovation of Indian companies and found a significant positive effect of Royalty expenditure on the output of target firms. However, R&D expenditure did not reveal a significant effect on the output. FASB Statement No. 2 took the position that research and development **(R&D)** costs should be expensed based on the high degree of uncertainty and the lack of causal relationship between **R&D** costs and the benefits received.

3. Research Methodology and Design

This research study is a macro nature case study, based on the secondary source of data related with leading Indian companies. Most of the data related

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[8]Erickson, G., & Jacobson, R. (1992). Gaining comparative advantage through discretionary expenditures: the returns to R&D and advertising. Management Science, 38,1264-279.

[9]Amir, E. and Lev, B. (1996): "Value-relevance of non-financial information: the wireless communications industry", Journal of Accounting and Economics, Vol. 22, pp. 3-30.

[10]Basant, R., & Fikkert, B. (1996). The effects of R&D, foreign technology purchase, and domestic and international spillovers on productivity in Indian firms. The Review of Economics and Statistics, 78(2), 187-199.

with reporting & disclosures for research and development had been collected from published annual reports available on official websites of the sample company. These data's are related to last 5 years (2009-10 to 2013-14) because these years are very important for the growth and development of intangible assets including the expenditure on research and development. Theoretical literature related with reporting & disclosures of research and development, collected from various secondary sources e.g. leading journal, magazines, news papers and information available in official websites. For comparison three companies from Automobile Industries.

3.1 Objectives of the study

The following are the main objectives of the present study:

i. To understand the concept of research and development cost and accounting methods in knowledge era.

ii. To understand reporting and disclosure methods and strategy of various R& D cost.

iii. To find out reporting and disclosure practice adopted by sample companies related with R&D cost.

3.2 Limitations of the study

The following are the main limitations of the present study:

i. This study is a macro nature case study, limited to 5 years (2009-10 to 2013-14) performance of the sample companies.

ii. The data used in this study have been taken from published annual reports only. As per the requirement and necessity of the study, some data's are grouped and sub grouped.

4. Indian Scenario - AS 26 for Intangible Assets

The objective of AS-26 relating to intangible assets is to prescribe the accounting treatment for intangible assets that are not covered specifically in another accounting Standard. The main provision related with research and development cost is as follows.

i. No intangible asset arising from research to be recognized.

ii. An intangible asset arising from development to be recognized if an enterprise can demonstrate its feasibility, ability to sell, generation of future economic benefits, intention and availability of resource for completion and ability to measure the expenditure.

iii. Research and Development expenditure recognized as expense to be disclosed.

iv. Expenditure on self-generated intangible asset is incurred in two phases. (A) Research Phase: Research expenditure means planned expenditure for gaining knowledge. Expenditure during research phase will be charged to P&L A/c. It can never be reinstated as asset in future. **(B)** Development Phase: Development expenditure means expenditure incurred on application of already gained knowledge. Expenditure during development phase will be capitalized as intangible asset till such asset is ready for use.

v. Following items are not capitalized: Staff training expense, abnormal losses, Share of allocated overhead.

4.1 Research and Development Cost & IAS 38

The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS. The main related with research and development cost is as follows:

i. *Initial recognition:* Research & Development costs: Charge all research cost to expenses[11]

ii. Development cost is capitalized only after technical and commercial feasibility of the asset for sale or use have been established. This means that the entity must intent and be able to demonstrate how the assets will generate future economic benefits[12].

iii. If the entity cannot distinguish the research phase of an internal project to create an intangible asset from the development phase, the entity treats that expenditure for that project as if it were incurred in the research phase only.

iv. *Initial recognition: In-Process research and development Acquired in a business combination:* A research and development project acquired in a business combination is recognized as an asset at cost, even if a component is research. Subsequent expenditure on that project is accounted for as any as research and development cost (expensed except to the extent that the expenditure satisfies the criteria in IAS 38 for recognizing such expenditure as an intangible asset)[13].

[11]IAS 38.54

[12] IAS 38.57

[13] IAS 38.34

v. *IAS No.* 38 has included advertising, training, start-up, and research and development activities as intangibles.

5. Practices of Some Leading Companies in India - An Analysis

An attempt is also made by the researcher to analyze the disclosure and reporting practices adopted by the Indian companies related with accounting and reporting for research and development expenditure. An industry wise analysis made to know the nature of intangible assets and reporting and discloser practices adopted by the Indian industry during the study period.

Most of the sample companies for R & D recognition and capitalization of research and development costs, which are related with the creation & generation of intangible assets they are following the principles as 'Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, are capitalized and included in fixed assets.

Almost all the **information technology** companies are having same kind of practices related with accounting and reporting for cost related with research and development. But in Pharma Company Such As **Ranbaxy** they are providing detailed information about Research and development cost. Product development cost recognized as intangible assets after regulatory approvals, Revenue expenditure on research and development is expensed as revenue natures, while Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized. Similarly, in Dabur, contributions towards scientific research expenses are charged to the Profit & Loss Account in the year in which the contribution is made.

In automobile companies such as **Tata motors;** the product development cost incurred on new vehicle platform, engines, transmission and new products are recognized as intangible assets and are amortized over a period of 36 months to 120 months or on the basis of actual production to planned production volume over such period after commencement of the commercial production of the underlying product. Similarly in **Bajaj Auto**, expenditure incurred on know - how developed by the company, post research stage, is recognized as an intangible asset, expenditure incurred at development phase, where it is reasonably certain that outcome of research will be commercially exploited to yield economic benefits to the company, is considered as an Intangible asset and accounted.

Public sector companies such as BHEL; expenditure incurred on Development including the expenditure during the development phase of Research & Development Project meeting the criteria as per Accounting Standard on Intangible Assets, is treated as intangible asset. Detailed analysis is given under the Table 2.

Table 2: Disclosure and reporting methods for R & D Expenditures

Company	Disclosure and reporting methods for R & Cost
WIPRO	Revenue expenditure on research and development is charged to profit and loss account and capital expenditure is shown as addition to fixed assets.
INFOSYS	Revenue expenditure incurred on research and development is expensed as incurred. Capital expenditure incurred on research and development is depreciated over the Estimated useful lives of the related assets.
TCS	Research and Development expenditure is recognized in the profit and loss account when incurred. Fixed assets utilized for research and development are capitalized and depreciated in accordance with the depreciation rates.
SATYAM	Revenue expenditure incurred on research and development is charged to revenue in the year/period in which it is incurred. Assets used for research and development activities are included in fixed assets.
HCL Tech	Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on equipment and facilities acquired or constructed for research and development activities and having alternative future uses, are capitalized and included in fixed assets.
LUPIN	Revenue expenditure incurred on research and development is charges to the respective heads in the profit and loss account, in the year it is incurred and capital expenditure there on is included in the respective heads under fixed assets.
RANBAXY	- Product Development Cost incurred for acquiring rights for product under development are recognized as intangible assets and amortized on a straight line basis over a period of five years from the date of regulatory approval. Subsequent expenditures on development of such Products are also added to the cost of intangibles. - Revenue expenditure on research and development is expensed out under the

	respective heads of account in the year in which it is incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized, if the cost can be reliably measured, the product or process is technically and commercially feasible and the Company has sufficient resources to complete the development and to use and sell the asset. - Other development expenditure is recognized in the Profit and Loss account as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Materials identified for use in research and development process are carried as inventories and charged to Profit and Loss Account on issuance of such materials for research and development activities.
DR REDDY'S	Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development is capitalized as fixed assets and depreciated in accordance with the depreciation policy of the Company.
PFIZER	Capital expenditure on research and development is capitalized as fixed assets and depreciated in accordance with the depreciation policy of the Company.
PARIMAL HEALTH CARE (NICHOLAS)	Revenue expenditure on research and development is recognized as expense in the year in which it is incurred and the expenditure on capital assets is depreciated over the useful lives of the assets
GLAXCO	Revenue expenditure on research and development is recognized as expense in the year in which it is incurred and the expenditure on capital assets is depreciated over the useful lives of the assets.
SUN PHARMA	All revenue expenditure related to research and developments are charged to the respective heads in the Profit and Loss Account.
DABUR	Contributions towards scientific research expenses are charged to the Profit & Loss Account in the year in which the contribution is made.
HUL	Revenue expenditure on research and development is charged against the profit of the year in which it is incurred. Capital expenditure on research and development is shown as an addition to fixed assets.

COLGATE	Revenue expenditure on research and development is charged against the profit of the year in which it is incurred. Capital expenditure on research and development is shown as an addition to fixed assets.
BRITANNIA	Research and development expenses of revenue nature are charged off in the period in which they are incurred.
ITC	To write off all expenditure other than capital expenditure on Research and Development in the year it is incurred. Capital expenditure on Research and Development is included under Fixed Assets.
GODREJ	Revenue expenditure on Research and Development is charged to the Profit and Loss Account of the year in which it is incurred. Capital expenditure incurred during the year on Research and Development is included under additions to fixed assets.
MARICO	Capital expenditure on research and development is capitalized and depreciated as per the accounting policy of the company. Revenue expenditure is charged off in the year in which it is incurred.
TATA MOTORS	-The product development cost incurred on new vehicle platform, engines, transmission and new products are recognized as intangible assets and are amortized over a period of 36 months to 120 months or on the basis of actual production to planned production volume over such period after commencement of the commercial production of the underlying product. - Software not exceeding Rs. 25,000 and product development costs relating to minor product enhancements, facelifts and upgrades are charged off to the profit and loss account as and when incurred.
HERO HONDA	Research and development expenditure of a revenue nature is expensed out under the respective heads of account in the year in which it is incurred.
M&M	The expenditure incurred on technical services and other project/ product related expenses are amortized over the estimated period of benefit, not exceeding five years.
BAJAJ AUTO	- Technical know-how developed by the company: Expenditure incurred on know-how developed by the company, post research stage, is recognized as an intangible asset, if and only if the future economic benefits attributable are probable to flow to the company and the costs can be measured reliably. The cost of Technical Know-how developed is amortized equally over its

	estimated life i.e. generally three years. - Research & Development Expenditure is charged to revenue under the natural heads of account in the year in which it is incurred. Payments for R&D work by contracted agency are being expensed out up to the stage of completion. However, expenditure incurred at development phase, where it is reasonably certain that outcome of research will be commercially exploited to yield economic benefits to the company, is considered as an Intangible asset and accounted.
EICHER LTD	Revenue expenditure on research and development is expensed off under the respective heads of account in the year in which it is incurred. Expenditure, which results in creation of capital assets, is treated in the same way as expenditure on the fixed assets.
ASHOK LEYLAND'S	Expenditure on the design and production of prototypes is charged to revenue as incurred. Product development costs, including know how developed/acquired, incurred on new vehicle/engine platforms, variants on existing platforms and aggregates are recognized as Intangible assets and amortized.
BHEL	Expenditure on research including the expenditure during the research phase of Research & Development Projects is charged to profit and loss account in the year of incurrence, Expenditure incurred on Development including the expenditure during the development phase of Research & Development Project meeting the criteria as per Accounting Standard on Intangible Assets, is treated as intangible asset.
GRASIM LTD	Revenue expenditure is charged to the profit and loss account and capital expenditure is added to the cost of fixed assets in the year in which it is incurred.
CROMPTON GREAVES	Revenue expenditure on research and development is charged under respective heads of account. Capital expenditure on research and development is included as part of fixed assets and depreciated on the same basis as other fixed assets.
HEG	Revenue Expenditure on research and development including salaries, consumables and power & fuel is charged to Profit and Loss Account under respective heads of expenditure. Capital expenditure is shown as addition to fixed assets.
L&T	Revenue Expenditure on research and development including salaries, consumables and power & fuel is charged to Profit and Loss Account under respective heads of expenditure. Capital expenditure is shown as addition to fixed assets.

HINDALCO	Expenditure incurred during research phase is charged to revenue when no intangible asset arises from such research. Assets procured for research and development activities are generally capitalized.
ABB LTD	All revenue expenses pertaining to research and development are charged to the profit and loss account in the year in which they are incurred and development expenditure of capital nature is capitalized as fixed assets and depreciation as per the company's policy.

Source: Information collected & complied from annual reports from 2009 to 2013-14.

6. Research and Development Expenses- Taxation Benefits

Under income tax act many incentives are given to assessee for the research and development activities through which they are generating intangible assets/ intellectual capital. An innovative industry in India can gain competitive advantage in the market if it develops the necessary expertise and skills in developing and manufacturing new products, which are patented. All exercises incurred by the assessee on promotion of research can be divided in to two main categories

(A) Expenses on research carried on by the assessee himself - in house research

(B) Research activities carried on by an outside agency or body and the assessee helps such a body through finance.

6.1 Expenses on Research Carried on by the Assessee Himself - In House Research

(I) Revenue expenditure incurred by the assessee himself sec 35(1) (i):

(a). Weighted tax deduction on R&D expenditure: Under section 35(2AB) of the income tax Act, weighted tax deduction @ 150% on R&D expenditure is available (except land and building) to companies engaged in the manufacturing or production of Drugs, computers, biotechnology, or the business of manufacture or production of drugs, pharmaceuticals, electronic equipment, telecommunication equipment, automobiles chemicals and manufacture of aircraft and helicopters. Now this deduction is available up to 31st March 2012(earlier it was available up to 31 March 2008)[14].

[14]Finance Act 2007

(b) Tax holiday to R&D companies: Under section 80IB (8A) of the income tax act Tax holiday is available to approved companies engaged in scientific and industrial R&D activities on commercial lines for ten consecutive assessment years. This incentive is applicable to any commercial company that has its main objective and activities in the area of scientific and industrial R&D. This would be applicable to companies approved after March 31, 2000 but before 31st March 2005.

(II) Capital expenditure incurred by the assessee himself to set up research projects Sec 35(1) (2): Any capital expenditure incurred by the assessee for the set up of research unit full amount will be allowed as expenditure in the current year (except the purchase of land). Other provisions are as follows

(a) Accelerated depreciation allowance: Depreciation allowance at a higher rate is available in respect of plant and machinery installed for manufacturing goods based on indigenous technology developed in recognized in house R&D units, Government R&D institutions, national laboratories and Scientific and Industrial Organizations (SIRO).

(b) Income tax relief on R&D expenditure: Under Section 35(1) (i) of the Income Tax Act 1961, the revenue expenditure on scientific research, by recognized R&D units, on activities related to the business of the company is allowed full deduction. Under Section 35 (1) (IV) expenses of a capital nature could be deducted totally from the income of the year in which the expenses have been incurred (other than land and building).

6.2 Research activities carried on by an outside agency or body and the assessee helps such a body through finance: In many cases companies they are not doing research himself but they are funding to the outside agency for the research such amount is also eligible for deduction under income tax act.

(I). Tax deduction for sponsoring research: Section 35 (2AA) of the IT Act 1961 (finance Act 2006) provides for a weighted tax deduction of 125% for expenses on sponsoring research programmes at National laboratories functioning under ICAR, CSIR, ICMR, **DRDO,** Department of Biotechnology, Department of Atomic Energy, Department of Electronics; IIT and Universities[15].

[15] Finance Act 2006

(II). In case any sum of amount is given to a college, university or approved scientific research associations for research work in the field of social sciences or applied statistics related or unrelated with the business of the assessee a weighted 125% deduction of the donation is given as deduction

7. Analysis to Sales and Research & Development Cost - A Study of Automobile Industry

Automobile sector companies are leading companies which are spending a huge amount for research and development of various new methods and formula for their new vehicles and sustainable innovations. Their entire business and market share is mainly depending upon the R& D activities. Keeping this view in a mind an effort is made by the researcher to know how much amount was spend by the Automobile companies on R&D activities and what is percentage with sales. In this process three leading companies related with Automobile sector were selected by the researcher based on their turnover and markets share. The main purpose of this analysis is to know that all the automobile sector companies are spending same percentage of amount with sales or there are variation among the companies regarding expenditure pattern related with research and development and their further requirement.

Table 3: Statement of R&D cost and Sales in Automobile sector Companies (Rs. In Crores)

Year	TATA Motors			Ashok LEYLAND			M&M		
	R&D Cost	Sales	%	R&D Cost	Sales	%	R&D Cost	Sales	%
2010	1476.61	35593.05	4.15	39.69	7872.60	0.50	275.72	23198.65	1.19
2011	1187.21	47088.44	2.52	465.01	11221.56	4.14	398.59	36863.78	1.08
2012	1548.69	54306.56	2.85	510.33	12882.34	3.96	487.42	59417.63	0.82
2013	1759.31	44765.72	3.93	575.40	10009.95	5.75	667.05	62643.54	1.06
2014	2144.35	34288.11	6.25	607.19	12543.55	4.84	674.89	66930.97	1.01
A.M	**1623.23**	**43208.38**	**3.94**	**439.52**	**10906.00**	**3.84**	**500.73**	**49810.91**	**1.03**

Source: Information collected & complied from annual reports from 2009-10 to 2013-14.

In case of **Tata** their R&D expenditures showed a fluctuating trend between 2010 and 2014. Sales also showed a fluctuating trend in accordance with fluctuations in R&D expenses. R&D expenses of the firm averaged to a value of Rs. 1623.23 crore. The highest R&D expenses of Rs.2144.35 recorded sales of Rs. 34288.11 Crores. Sales had an average value of Rs.43208.38 crore.

In case of **Ashok Leyland,** R& D cost significantly increased from Rs 39.69 Crore to Rs 607.19 Crores between 2010 to 2014. However, in terms of percentage with sales it is always fluctuated between 0.5% to 4.84%. Overall average of R& D cost to sales is 3.94% during the last five years which is good as compare to other companies.

In **Mahindra & Mahindra,** R&D cost regularly increases from Rs. 275.72 Crore to Rs 674.89 Crores during the last five years. Whereas, percentage of R& D cost with sales also decreased from 1.19% to 1.01% with an average of 1.03% with the sales as an indicator for consistent R& D policy. Over all when a ranking is given by the researcher based on percentage of R& D cost to sales for the sample companies, Ist place secured by TATA then II and III by Ashok Leyland and M&M respectively.

Analysis to Sales and Research & Development Cost - A Study of IT Industry

Information technology sector companies are leading companies which are spending a huge amount for research and development of various new methods and formula for their new software's and applications. Their entire business and market share is mainly depending upon the R& D activities. Keeping this view in a mind an effort is made by the researcher to know how much amount was spend by the IT companies on R&D activities and what is percentage with sales. In this process three leading companies related with IT sector were selected by the researcher based on their turnover and markets share. The main purpose of this analysis is to know that all the IT sector companies are spending same percentage of amount with revenue or there are variation among the companies regarding expenditure pattern related with research and development and their further requirement.

Table 4: Statement of R&D cost and Revenue in IT sector Companies

Year	TCS			Infosys			Wipro		
	R&D Cost	Revenue	%	R&D Cost	Revenue	%	R&D Cost	Revenue	%
2010	84.44	30300.99	0.28	435	22742	1.91	158.7	27157.4	0.58
2011	106.13	37928.51	0.28	527	28712	1.84	176.7	31098.7	0.57
2012	141.88	49322.00	0.29	676	35638	1.90	176.9	32207.5	0.55
2013	164.18	64167.71	0.26	907	42717	2.12	171.4	37688.2	0.45
2014	198.91	83446.10	0.24	873	52797	1.65	193.6	43762.8	0.44
A.M	**139.11**	**53033.06**	**0.27**	**683.6**	**36521.2**	**1.88**	**175.46**	**34382.92**	**0.59**

Source: Information collected & complied from annual reports from 2009-10 to 2013-14.

In case of **TCS** their R&D expenditures showed a increasing trend between 2010 and 2014. Sales also showed a continuous increasing trend in accordance with fluctuations in R&D expenses. R&D expenses of the firm averaged to a value of Rs. 139.11 crore. The highest R&D expenses of Rs. 198.91 recorded a sales of Rs. 83446.10 Crores. Sales had an average value of Rs. 53033.06 crore.

In case of **Infosys**, R& D cost significantly increased from Rs 435 Crore to Rs 873 Crores between years 2010 to 2014. However, in terms of percentage with sales it is always fluctuated between 1.91% to 2.12%. Overall average of R& D cost to sales is 31.88% during the last five years which is good as compare to other companies.

In **Wipro**, R&D cost contribution was very low but better than TCS during the last five years. Whereas, percentage of R& D cost with sales also decreased from 0.58% to 0.44% with an average of 0.59% with the sales as an indicator for consistent R& D policy. Over all when a ranking is given by the researcher based on percentage of R& D cost to sales for the sample companies, Ist place secured by **Infosys** then II and III by **Wipro** and **TCS** respectively.

8. CONCLUSION

In the global competitive scenario not a single company can survive without innovations. It was observed that Automobile companies contributed more to the R&D expenses than IT companies. Among the Automobile companies under the study highest contribution in R&D was from TATA motors. Highest contribution to the R&D expenses among the IT companies under study was from Infosys. For affordable & sustainable innovations corporate's have to focus on research and development activities, which leads to creation of many intangible assets. Now a day's intangibles are more important than tangible assets because of their impact on earning potential and unique nature related with the business and many intangible are the result of R& D activities. Indian companies specially Pharma, IT and Automobile companies they are more focusing on R&D activities to develop affordable products to the marginal customers. But as far as accounting of research and development expenses is concern still many companies treating it as revenue expenses and even impact is long term. Similarly, accounting practices for research and development also not in uniform manner among the Indian companies within intra and inter industry and which directly affect their disclosed profit and earning statement.

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Microfinance and SHG Models

A Performance Evaluation

Bhabananda Deb Nath

Parag Shil

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This book is dedicated to the fond memories of my father

Late-Premananda Deb Nath

&

To my mother ***Uma Deb Nath*** whose
endless sacrifice and untiring efforts

have made me who I am today.

-Bhabananda

Preface

As a phenomenon of finance for the poor, 'Microfinance' is not of recent origin, rather, it existed in the ancient times, but not in the concept and provision as we are witnessing it today. It was merely a provision of micro-credit then, but, only access to credit can't eradicate poverty, the curse, in the developing countries, and what is needed is a range of financial services which can strengthen the financial positions of the poor, mainly for the deprived and the destitute, to bring economic empowerment, the ultimate of all empowerments for the poor. Thus, the concept of microfinance has been developed to fulfill the need of the hour, and microfinance today is the provision of thrift, credit, remittances, insurance, etc. for the poor living in urban, semi-urban and in rural areas.Microfinance has become an effective appliance; eradication of poverty and vulnerability of the poor seems possible through microfinance for its magic performance recorded in the World up-till now, through its financial services, particularly giving access to credit and savings. Thus, improving economic condition, giving self-employment, income generation, financial inclusion, empowerment, etc. to those ignorant sections, which other-wise were treated as barren, are the aims behind the microfinance services.

So, various methodologies have been evolved to spread the service of microfinance among the needy people and those methodologies, are called the models of microfinance. The 'SHG Models' are very popular and effective models in our country and it is India's home grown model, but the initial attention came from 'Grameen Model' of Bangladesh. SHG models comprise three credit-linkage models, namely, SHG

Model-I, Model-II and Model-III. Model-I & II are same from credit-linkage/delivery point of view and the difference lies in this fact that in case of Model-I, banks itself shoulder all the responsibility of SHGs, from formation to nurturing, while in Model-II the task of formation and nurturing lies with some external agencies/NGOs etc. But, in Model-III, the responsibility of formation, financing and nurturing of SHGs are vested in the NGOs/MFIs. All the models are functional in our country with different service volume and model-II stands first. The performance under SHG models is mainly spread in the southern region, particularly in Andhra Pradesh, and Northeast region remains underserved, but, Assam is in the leading position in this region. Such huge regional disparities may be caused due to service quality, adaptability, suitability and implementations, etc. associated with the SHG models in Assam and in Barpeta District. And performance study perhaps is the best way to know the real scenario. Further, a good number of SHGs exist in Barpeta District, but most surprisingly, nearly half the total SHGs are found defunct. So, some strong reasons or problems are likely to exist. Again, to know how far the active SHGs are benefited and obtained services of microfinance and which model is more suitable for the SHGs, etc. the study has been conducted.

The study arrived at these conclusions that, Model-III is more dedicated to the field of microfinance for SHGs and extending more quality and sustainable services to the SHGs and to its members in the district. In terms of service volume, model-II has been able to reach more people, SHGs, disbursed more loans, savings etc. but, in terms of growth rate and quality of service, the SHGs under model-III are found more active, beneficial and sustainable than model-II in the district during the period of study. Further, the intermediaries under model-III could be developed to full-fledged financial institutions with the help of proper regulation, which will be more sustainable both for the SHGs and intermediaries (i.e., NGOs/MFIs) engaged in the service.

We owe our indebtedness to those eminent authors, scholars, whose books and publications have been consulted and used in this project. We beholder to all the respondent SHGs surveyed for the collection of primary data and to all the Development Block Offices and BDOs and other office staffs of Barpeta District, DRDA, Banks, Branch managers and staffs of ASOMI, Bandhan and RGVN for supporting us by providing valuable information and data for this study. We also offer our sincere thanks to all the Officials, Offices, Departments, Institutions, libraries, our students, family members, friends and well-wishers, who extended us support and suggestion directly or indirectly during the period of this study.

Though utmost care and best efforts have been made while writing and in other stages of printing and composing, yet few errors may have crept in inadvertently.

Bhabananda Deb Nath
Parag Shil

ACRONYMS

AASHA	All Assam Socio Economic Health Association
ACCION	Americans for Community Cooperation in Other Nations
ADEMI	Association for the Development of Micro-Enterprises
ADBN	Agriculture Development Bank of Nepal
AIM	Amannah Ikhtiar Malaysia
APMAS	Andhra Pradesh Mahila Abhivruddhi Society
APRACA	Asian and Pacific Regional Agricultural Credit Association
ASA	Activists for Social Alternatives
ASSEFA	Association of Sarva Seva Farms
BAAC	Bank for Agriculture and Agricultural Co-operatives
BC	Business Correspondent
BDB	Bank Dagan Bali
BF	Business Facilitators
BMB	Bharitiya Mahila Bank
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia

CAPART	Council for Advancement of People's Action and Rural Technology
CARE	Co-operative for Assistance and Relief Everywhere
CBs	Commercial Banks
CDCCB	Chandrapur District Central Cooperative Bank
CDF	Cooperative Development Forum
CDR	Credit Deposit Ratio
CDS	Community Development Society
CGAP	Consultative Group for Assisting the Poor
CMF	Centre of Micro-finance
CMMFS	Chief Minister's Micro Finance Scheme
DHAN	Development of Humane Action Foundation
DRDA	District Rural Development Agencies
DWCRA	Development of Women and Childern in Rural Areas
EAS	Employment Assurance Scheme
EDP	Entrepreneurship Development Programme
EDL	Entrepreneurship Development Loans
FINCA	Foundation for International Community Assistance
FLDC	First Loss Default Guarantee
FWWB	Friends of Women's World Banking
GDP	Gross Domestic Product

GOI	Government of India
GVM	GramyaVikash Mancha
HDFC	Housing Development Finance Corporation
HDI	Human Development Index
HUDCO	Housing and Urban Development Corporation
ICAI	Institute of Chartered Accountant of India
ICICI	International Credit and Investment Corporation of India
IDA	International Development Association
IEFD	International Fund for Agricultural Development
IJY	Indira AwasYojana
ILO	International Labour Organization
IRVs	Individual Rural Volunteers
IRDP	Integrated Rural Development Programme
JLG	Joint Liability Group
JRY	JawaharRojgarYojana
LIPH	Livelihood Improvement Project for the Himalayas
MACS	Mutually Aided Cooperative Societies
MAHP	Microfinance and Health Protection
MART	Market Research Team
M-CRIL	Microcredit Rating International Limited
MFIs	Microfinance Institutions

MREGA	Mahatma Gandhi National Rural Employment Guarantees Act
MYRADA	Mysore Resettlement and Development Authority
NABARD	National Bank for Agriculture and Rural Development
NBFCs	Non-Banking Financial Companies
NCAER	National Council of Applied Economic Research
NER	North-East Region
NEDFi	North Eastern Development Finance Corporation Ltd.
NFAs	No-frill Accounts
NGOs	Non-Government Organizations
NPAs	Non Performing Assets
NRLM	National Rural Livelihood Mission
NREGA	National Rural Employment Guarantees Act
PACSs	PrimaryAgricultural Cooperative Societies
PITCCOSS	Pioneer Thrift & Credit Co-operative Service Society Ltd.
PREM	People's Rural Education Movement
PRADAN	Professional Assistance for Development Action
RBI	Reserve Bank of India
RGVN	RashtiyaGraminVikasNidhi
RGVN-CSP	RGVN-Credit and Saving Programme
ROSCAs	Rotating Savings and Credit Associations

RRBs	Regional Rural Banks
SBI	State Bank of India
SEWA	Self-Employed Women's Association
SIDBI	Small Industries Development Bank of India
SGSY	Swarnajayanti Gram SwarozgarYojana
SHG	Self Help Group
SHG-BLP	SHG-Bank Linkage Programme
SHPI	Self-Help Group Promoting Institution
SKS	SwayamKrishiSangam
SWDF	Sadguru Water and Development Foundation
TNCDW	Tamil Nadu Corporation for Development of Women
TRYSEM	Training of Rural Youth for Self-Employment
VVD	Volunteers for Village Development
WDS	Weavers Development Society
YVU	Youth Volunteer's Union

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Microfinance-An Introduction

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Microfinance - An Introduction

1.1. Introduction:

Microfinance, which includes a range of financial services for the poor, has been proved as 'Sustainable Finance for the Poor' (Robinson, 2001) and as an effective source of alternative finance, especially for the deprived section of our formal financial system, where those borrowers were considered either not credit-worthy, unsecured, unproductive or as burden of NPAs. But, the remarkable success of microfinance in the world and the experiences of Grameen Bank[1] of Bangladesh, Bank Rakyat[2] Indonesia (BRI) in Indonesia, FWWB[3] of India etc. have established the fact that, how even small amount of loan/credit can change the life of the poor, make them credit worthy and they are actually more in need of credit facility rather subsidy or charity for their development (Yunus, 2007). The women members are relatively performing better than men as women are better money managers than men, and, as a milestone, the Government of India initiated and started BMB

1 The Grameen Bank of Bangladesh holds an iconic position in microfinance in the world and proved that 'the poor are bankable'; the Grameen Bank model has been copied in more than 40 countries. Its founder director Prof. Muhammad Yunus, who awarded the Nobel Peace Prize in 2006 for taking the concept of microfinance to the world by his Grameen experience. The Bank has made it clear that the poor are creditworthy. The Bank was started as a project in Chittagong district in August 1976 and became an independent bank dedicated to poor women of Bangladesh on October 2, 1983.

2 Bank Rakyat Indonesia (BRI), in Indonesia or PT Bank Rakyat Indonesia, is one of the larger banks in Indonesia. It specializes in small scale and microfinance style of borrowing from and lending to its approximately 30 million clients through its 4000 branches, units and rural service posts. As of 2010 it is the second largest bank in Indonesia by Asset. (Wikipedia) link: http://en.wikipedia.org/wiki/Bank_Rakyat_Indinesia

3 FWWB (Friends of Women's World Banking Indonesia) is an Indian APEX organization that assists microfinance and microenterprise organization, founded in 1982 by Ela Bhatt and it is located in Ahmedabad, Gujarat, India

(Bharitiya Mahila Bank) in different parts of the country to provide easy access and loans with least collateral to women and the Bank is largely modeled on the basis of Grameen Bank, Bangladesh (A.T., 2014). The services of microfinance are delivered by different models, where lending through group approach becomes the key to the success and development of microfinance, because the same serves as collateral for the lenders. In India also, the group approach of financing, the 'SHG Models' are the only popular and dominating models among the other operating models of microfinance, especially for the rural poor, women and destitute. SHG Models comprise three credit linkage models for linking SHGs to avail microfinance facilities, named as Model-I, Model-II and Model-III, and all the models are operating in India with mixed and uneven proportion of response and result. But Model-II (i.e., SHG promoted by Govt. & NGOs/MFIs, but directly financed by Banks) became the most popular and dominating model among these models in terms of clients out-reach, in linking of SHGs, financing, savings, etc. [(Ghosh, 2012), (Sundaram I. S., 2007), (Karmakar, 2009), (Subramanyam, 2012), (Reddy, 2012), (Veerashekharappa, Shylendra, & Guha, 2009)]. Microfinance has been an accepted approach now, exercising over two decades as a pathway to emerge out of poverty. In India too, where microfinance begins with micro-credit, has exposed robust performance regarding formation of SHGs, reaching poor people, savings, disbursement of loans, access to income generation, self-employment, women empowerment, reducing vulnerability of the poor, especially, women in rural and remote areas. What had started as a pilot project in 1992 to provide microfinance through the SHG-Bank linkage program, a mechanism to provide small loan to the poor was unveiled and the programme has now become one of the largest microfinance initiatives in our country. The small beginning to link only 500 SHGs to banks in 1992, had grown to over 0.5 million SHGs by March 2002 and further to 7.96 million by March 2012, where women SHGs constitute

79.1percent. The 7.96 million SHGs of the poor maintain a balance of over ₹ 6550 crore in the Savings Bank accounts with the Banks, over 4.4 million SHGs are regularly availing credit facilities from the Banks. During 2011-12 alone, over 1.15 million Groups availed loans amounting to ₹ 16535 crore from Banks and together 4.4 million Groups have loans to the extent of ₹36340 crore outstanding against them with the financing Banks up to the end of March, 2012, (NABARD, 2012). Under the SHG-Bank linkages programme, over 103 million rural households have now access to regular savings and about 27 percent of those (i. e., of the total 7.96 million) are savings linked through the SGSY programme, the rural poverty alleviation programme of Government of India. The remarkable progress and success in reaching the poor, especially women, formation of group, credit disbursements, high recovery, etc. proved many things and that have gone against the myths, which say that, poor are not credit-worthy, poor are not trust-worthy, etc., and as such these have now become fabricated statements. Thus, microfinance sector is growing rapidly in our country owing to huge rural population, lack of employment avenues, poverty, lacking in industrialization, depending largely on agricultures with traditional system of cultivation, financial exclusion, etc. and microfinance is a way to come out of poverty, especially for the poor and ignorant of formal financial system, where almost no option exists for financial services to the poor without collateral.

On the contrary, the rapid growth of this sector created regional skew and imbalances as almost two thirds of the sector being concentrated in the three southern states and large parts of the north and the north-east remaining highly underserved and reached. Again, among the thirteen priority states; which account for 67% of the poor, remain fairly underserved in microfinance services. Among the regions that remain highly underserved, Northeast is among the least evolved microfinance markets. While in SHG-bank linkages, the states of the Northeast rank among the last 5 states in the country and the alternate channel of MFIs have recently become active in the state in microfinance service (Vision, 2015)[4].

1.2. Concept of Microfinance:

The term microfinance has originated from micro-credit, which is a very longstanding concept and had evolved even more than two centuries ago in our country and also in many parts of the world (Khanka, 2010), which dealt only with micro loan/credit for the needy borrowers and poor people, but the concept of microfinance is an inclusive one and it covers the entire range of financial products like thrift, credit, payments services, insurance, remittance/fund transfers facilities etc.(Manimekalai, 2004)for the poor and deprived people of our formal financial systems, which more or less is providing the banking services to the poor. A number of microfinance service programmes are in operation in different parts and states of our country, but, at the bottom, their ideologies are same i.e., to provide quick and easy credit to the poor without collateral (Feroze & Chauhan, 2011).Microfinance deals with a set of services comprising (i) micro-credit; small loans; primarily for income generation activities, also act for consumption and contingency needs; and (ii) micro savings: thrift or small savings by the borrowers. Microfinance can also be defined as the process of meeting the capital investment, needs of individuals and groups for the setting up and for sustaining small business enterprises (Sundaram, 2007).

The expression ‘microfinance’ most commonly denotes the offer of modest financial services to zero or low income clients. So, any small-scale activity characterized by limited funds and low-income beneficiaries may fall in the field of microfinance. Although, microfinance was associated with programmes that

4 Microfinance Vision 2015, Northeast Region, India, access (Access Development Services is a national resource agency set up through DFID, Govt. of UK and CARE, a large international NGO, facilitation to support organized growth of the microfinance sector in India), M2i Consulting: Microfinance Management and Investment advisory. Link- http://www.accessdev.org/downloads/microfinance_vision_2015.pdf

benefit clients with serious subsistence problems in developing countries, but, from a number of years microfinance overlapped with microcredit or small loans, often without traditional guarantees (like land documents, jewelry, bonded labour etc.), aimed at improving the lives of the clients and their families or at sustaining small-scale economic activities (Torre & Vento). Thus, microfinance as a financial services mechanism, has been designed and developed according to the need and demand of time, especially in those countries, which are under the curse of extensive poverty and hunger. The concept of microfinance goes beyond mere financial service, rather to bring an environment of financial sustainability among the poor, deprived, destitute, especially for women, to live a life of dignity and to raise them from below the poverty level to a standard life. Thus, it is not only limited to credit aspect (i.e., small loan), but also developed some obligatory features to have savings, micro-insurance, remittances, etc. which are some compelling factors to strengthen the financial base of poor people for having long and permanent sustainability in their lives. Thus, to understand 'microfinance', the various aspects of microfinance should be considered along with the motives behind those aspects, again, 'micro-credit' is an important aspect of microfinance, but not microfinance.

1.3. History of Microfinance:

The mechanism of providing informal credit (i. e., loans) and other financial services to poor and underprivileged is very old. From historical point of view, the evolution of the concept of microfinance could be traced back to 1300, (Khanka, 2010), when the different forms of microfinance and collective lending have existed for hundreds of years and many informal credit groups have been operating in many countries like the susus in Nigeria and Ghana, chit funds and Rotating Savings and Credit Associations (ROSCAs) in India, Tontines in West Africa, Pasanaku in Philippines, etc., it is believed that initially, the informal financial institutions emerged in Nigeria dating back to in the fifteenth century. Such type of institutions started establishing in Europe during the eighteenth century when in 1720 the first loan fund targeting poor people was founded in Ireland (Seibel, 2005).

The origin of the modern concept of microfinance could be traced back to the beginning of the cooperative movement in Europe, where the movement started way back in 1844 in the field of cooperative based credit system (Khanka, 2010).

In 1847, some credit co-operatives were created in Germany which served 1.4 million people by 1910. In 1880s the British controlled government of Madras in South India tried to use the German experiments to address poverty in India. This effort resulted in membership of more than nine million poor's to credit co-operatives by 1946. During the same time, the Dutch colonial administrators constructed a co-operative rural banking system in Indonesia which eventually became Bank Rakyat Indonesia (BRI), now one of the largest Microfinance Institutions (MFIs) of the world (Schwiecker, 2004). In 1961, a US based NGO, ACCION International, as a sort of Pre-peace Corps programme working on community development with the poor in Latin America, developed the concept called 'Microfinance', which later on became the most effective panacea, in the poverty stricken majority of the third world nations and in 1970s, ACCION International experimented with the concept and developed a leading model. This organization comments that microfinance will succeed only when it serves the poor, since the poor can pay for their need and the same have experience in case of Grameen of Bangladesh (Deb, 2012).

In the 1970s, a paradigm shift started to take place in the field of microfinance and the failure of subsidized government or donor driven institutions to meet the demand for financial services in developing countries led to several new approaches. Bank Dagan Bali (BDB), established in Indonesia in 1970, was the earliest bank to institute commercial microfinance (Schwiecker, 2004). In 1973, ACCION International, a USA based NGO, disbursed its first loan in Brazil at commercial interest rate to start a micro-enterprise. One year later in 1974, the Self-Employed Women's Association of India (SEWA) started a bank to provide loans to poor women. As regards success and discovery of modern concept of microfinance in its history, the person mostly associated is the Bangladeshi economist and Nobel laureate for peace in 2006, Dr. Muhammad Yunus for his development intervention and tool in 1970s (Bateman, 2010). In 1976, Professor Yunus, initiated an experimental research project of providing credit to the rural poor. He gave a small loan of 856 Taka[5] ($27) from his pocket to 42 poor bamboo weavers and found that small loans radically changed the lives of these people and they were able to pay back the loans with interest. The success of this idea led Yunus to establish Grameen Bank in 1983 in Bangladesh. This programme showed astonishing growth rates in Bangladesh, particularly during the 1980s and 1990s (Yunus & Jolis, 2007). It encouraged social innovators and organizations all over the world to begin experiments with different microfinance delivery methods to bring financial services to the poor. It is now adopted worldwide in the countries of different continents. Many international NGOs, such as Foundation for International Community Assistance (FINCA), Americans for Community Cooperation in Other Nations (ACCION), Freedom from Hunger, Opportunity International, Co-operative for Assistance and Relief Everywhere (CARE), Consultative Group for Assisting the Poor (CGAP), etc. are promoting microfinance programme for creating new business and combating poverty in a sustainable way. Over the past few decades, microfinance has been experimented in many developing countries. Bank Rakyat Indonesia (BRI) in Indonesia, Bancosol in Bolivia, Bank for Agriculture and Agricultural Co-operatives (BAAC) in Thailand, Grameen Bank, and Bangladesh Rural Advancement Committee (BRAC) of

5 Currency of Bangladesh is called Taka.

Bangladesh, NABARD in India, Amannah Ikhtiar Malaysia (AIM) of Malaysia, Agriculture Development Bank of Nepal (ADBN), K-Rep in Kenya and Mibanco in Peru have yielded encouraging results in alleviating poverty and empowering the poor through microfinance. In India, the first initiative to introduce microfinance was the establishment of Self-Employed Women's Association (SEWA) in Gujarat. SEWA was registered as a trade union of self-employed women workers of the unorganized sector in 1972. This trade union established their bank known as SEWA Bank in 1974. To establish this bank four thousand union members contributed ₹10 each as share capital. Since then this 60 bank is registered as a co-operative bank and has been providing banking services to poor women and has also become a viable financial venture. In the midst of the apparent inadequacies of the formal financial system to cater to the financial needs of the rural poor, the first major effort to reach these rural poor was made by NABARD in 1986-87, when it supported and funded an action research project on 'Saving and Credit Management of Self-Help Groups' of Mysore Resettlement and Development Authority (MYRADA). For this purpose, a grant of ₹1 million was provided to MYRADA. Some encouraging results were yielded. In 1988-89, NABARD undertook a survey of 43 NGOs spread over eleven states in India to study the functioning of the SHGs and possibilities of collaboration between the banks and SHGs in the mobilization of rural savings and improving the credit delivery to the poor. Encouraged by the results of field level experiments in group based approach for lending to the poor, NABARD launched a pilot project of linking 500 SHGs with banks in 1991-92 in partnership with non-governmental organizations (NGOs) for promoting and grooming self-help groups of socio-economically homogeneous members. In order to meet their credit requirements, in July 1991 RBI issued a circular to the commercial banks to extend credit to the SHGs formed under the pilot project of NABARD. During the project period, different NGOs like Association of Sarva Seva Farms (ASSEFA), Madras; People's Rural Education Movement (PREM), Behrampur; Professional Assistance for Development Action (PRADAN), Madurai; and Community Development Society (CDS), Kerala promoted hundreds of groups. The results were very encouraging. In February 1992, the launching of pilot phase of the SHG- Bank Linkage Programme (SHG-BLP) could be considered as a landmark development in banking with the poor. In order to further promote this programme RBI issued instructions to banks in 1996 to cover SHG financing as a mainstream activity under their priority sector-lending portfolio. The programme acquired a national priority from 1999 through Government of India budget announcements. With the support from both the government and the Reserve Bank of India, NABARD, successfully spearheaded the programme through partnership with various stakeholders in the formal and informal sector. Since its inception, NABARD provides policy guidance, technical and promotional support, mainly for capacity building of NGOs and SHGs. Realizing the potential in the field of microfinance, the government allowed various private players to provide microfinance in 61 countries. These private microfinance providers, commonly known as MFIs, are various NGOs, Non-banking Financial Companies (NBFCs) and other registered companies. Many state governments amended/passed their State Co-operative Acts to use co-operative societies for providing microfinance. These days, many public and private commercial banks, regional-rural banks, co-operative banks, co-operative societies, registered and unregistered NBFCs, societies, trusts and NGOs are providing microfinance by using their branch network and through different microfinance delivery models.

1.4. Definitions of Microfinance:

Microfinance is a special kind of financial services, designed and developed for the poor people, especially for rural poor and women. It mainly offers credit and savings facility along with some other facilities, like provisions of micro-insurance, remittances, etc. for the people who primarily depend on their small earning. Microfinance, now, is a global phenomenon and a ray of hope for them who do not have anything to offer as mortgage/collateral to relish the benefits of loan facility otherwise. Thus, becoming very popular for its generous features and considering its nature, functioning, adaptability, etc. in different parts of the world, including our country, many definitions have been evolved, rather having a universal definition of microfinance, and some of those are presented below.

According to **Robinson[6] (1998)**,"microfinance is like a small-scale financial services and here both credits and deposits are provided to lower income people either individually or collectively in groups, in both rural and urban areas, especially in developing countries",(Deb, 2012).

According to **Torre & Vento** (n.d.), "the expression 'microfinance', most commonly denotes offer of modest financial services to zero or low income clients. Thus, any small-scale activity characterized by limited funds and low income beneficiaries may fall in to the field of microfinance".

ACCION defines microfinance as "Banking and/or financial services targeted to low and moderate income level entrepreneurs or households, including the provision of credit". (Panda, 2010).

International Labour Organization (ILO), defined microfinance as "an economic development approach that involves providing financial services through institutions to low income clients", (Reddy, 2012).

6 Marguerite S. Robinson is a social anthropologist and internationally expert on microfinance. She received her B.A. and Ph.D. from Harvard University and served as professor of anthropology and dean of the college of Arts and Sciences at Brandeis University before joining the Harvard Institute for International Development, where she worked from 1978-2000. She has worked extensively in rural areas and among the urban poor in India, Sri Lanka, and Indonesia-where she served for many years as an adviser to the Ministry of Finance and to Bank Rakyat Indonesia. She has also worked in Latin America and Africa, advising government, banks and donors and is the author of many papers and books on development and microfinance.

A working definition has been given by the **Task Force** on Supportive Policy and Regulatory Framework for microfinance set up by **NABARD** in November 1998 as: "Microfinance is the provision of thrift, credit and other financial services and products of very small amounts of the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve their living standards", (RBI Bulletin, Sept. 2005).

Microfinance can be defined as giving access to financing to as many poor people as possible, allowing them to use their capacities in favour of durable development (Yunus, 2003).

A working definition of Microfinance given **Karlan and Goldberg** (2007), for the lack of clear definition of the same as- 'microfinance for loans (i.e., microcredit) is the provision of small scale financial services to people who lack access to traditional banking services. The term microfinance usually implies very small loans to low-income clients for self-employment, often with the simultaneous collection of small amount of savings. How we define "small" and "Poor" affects what does and does not constitute microfinance. "Microfinance" by its very name clearly indicates that it is more than just credit; otherwise we should always call it 'microcredit.'

Microfinance has been defined by the **Asian Development Bank** (2000), as the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises.

Microfinance has been defined by **Schreiner and Colombet** as "the attempt to improve access to small deposits and small loans for poor households neglected by banks", (Subramanyam, 2012).

Microfinance has been defined in a more elaborate way under the **Micro-financial sector (Development and Regulation) Bill, (2007)** as the provision of financial assistance and insurance services to an individual or an eligible client either directly or through a group mechanism for an amount, not exceeding rupees fifty thousand in aggregate per individual for small and tiny enterprise, agriculture, allied activities (including for consumption purposes for such individual); or an amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing or other prescribed purposes. The eligible clients which may get financial assistance under this scheme may be landless labourers and migrant labourers; artisans and micro-entrepreneurs; disadvantaged cultivators of agricultural land including oral lessees, tenants and share croppers; and farmers owing not more than two hectares of agricultural land.

1.5. Microfinance- the Finance for the Poor:

"It's not people who aren't credit-worthy. Its banks those aren't people-worthy".

Muhammad Yunus.

"Sustainable access to microfinance helps to alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain healthcare and empowering people to make the choices that best serve their needs".

- Kofi Annan (United Nations Secretary – General from 1.1.1997 to 31.12.2006)

"A Grameen type credit programme opens up the door for limitless self-employment, and it can effectively do it in a pocket of poverty amidst prosperity, or in a massive poverty situation". Muhammad Yunus(Bateman, 2010).

Microfinance is proved to be an effective poverty eradication tool in the poverty driven countries for its magic performance in some sectors, where even Government machineries seem to be help-less and unsuccessful, thus microfinance becomes ***'finance for the poor'***, (Yunus, 2007) (Finance for the Poor: Microfinance Development Strategy, 2000).The sibling of microfinance, when exactly planted into practice is really difficult to identify, but the practice of **'Money Lenders'** or **Mahajan Pratha**[7] is a replication of microfinance practices today, so can be considered as the beginning of microfinance (Das, Dutta, Kakati, & Deka, 2011). Because, in those days, Mahajans' used to provide small loans, serve as custodian of valuables and in some cases kept savings of the poor or his followers in their house (Paul, 2007). But, Money Lenders' loaning system was very painful, as, once someone became a borrower the repayment continued up to several generations or led to bonded labour, thus poor people feared to accept **credit** and felt as curse to have such credit. Their exploitative behaviour with borrowers left a worst impression about **micro-credit** among the poor, thus developed the concept that, it couldn't be a way-out from poverty; rather, it will lead them to heinous or in vicious circle of poverty. Is micro-credit really Bad? Does it really bring troubles to the poor? If it were so, then we could not have the pioneer Bank like **'Grameen'** recognized & appreciated in the world today; the Yunus's system of 'micro-credit', is at practice in some sixty countries, and his Grameen Bank, which is a billion-pound business, acknowledged by world leaders and World Bank as a fundamental weapon to the fight against poverty, (Yunus, 2007), would also never been possible. The truth is something else and that is being established by Yunus's micro-credit initiative from Jobra village of Bangladesh to the world and also proved wrong that, ***'poor are not credit worthy or unproductive'***. Despite, the poor are found more sincere, dedicated and hard-

7 Money lenders or so called Mahajan means capitalist, use to lends to the poor people and popularly found in rural areas, used to charge high rate of interest and some families are doing the practice as ancestral business as such called Mahajan Pratha (convention). Money lenders could be classified into agriculturist money lenders & professional money lenders. Agriculturist money lenders combine farming with money lenders & professional money lenders are those whose occupation is money lending. Source: Rural Banking, published by Indian Institute of Banking & Finance, McMillian, 2010, Pg-28.

working, just need some support or help to establish, rather only incentive or donation. And, what microfinance is exactly doing for the poor, as microfinance is not only a provision of credit but a full range of financial services, like provisions of credit, savings, insurance and other financial products of such nature which can help the poor to have financial sustainability, (Thankom, Hulme, Martin, & Rutherford, 2009).

The World Summit for Social Development, which was held in Copenhagen, in March 1995, had underscored the importance of improving access to credit for small producers, landless farmers and other low-income individuals, ***particularly women*** and disadvantaged groups. Again, while we talk about women in microfinance, it is the 'SHG models' which are able to attract huge woman members world-wide. As a dominating model of microfinance in India, the SHG models have made rapid growth in terms of formation of SHGs, loan disbursement and outstanding, savings and also in linking of SHGs to banks, (Sundaram, 2009).Under the SHG-Bank linkage programme, over 103 million rural households have now access to regular savings through 7.96 million SHGs linked to banks (NABARD, 2012). The income level of the SHG members are also increased considerably and significant impact are found in their income level after becoming the SHG members, (Reddy, 2012; Subramanyam, 2012).

1.6. Concept of Micro-Credit:

Micro-credit, which comprises two important terms i.e., 'micro' means 'small' and 'credit' means 'loan', generally signifies small amount of loan. So, it is the credit or loan aspect only, in the concept of microfinance, which is almost full range of financial services found with conventional banking services. Interestingly, it was 'micro-credit' in the history of microfinance, which had given birth to the most pioneer, inclusive and revolutionary concept, 'microfinance', and the concept developed drastically in the poverty driven countries of world after the Grameen

Experience in Bangladesh, under the leadership of Md. Yunus.

So, though 'micro-credit' is one of the aspects of microfinance, but it is the most important and key feature for the huge development and growth of microfinance sector in India today, and in other parts of the world. Thus, only the credit/loan aspect of microfinance is called micro-credit.

However, it would be appropriate to recall that, while the term micro-credit has not been strictly defined as yet, it usually refers to the credits of "very small amounts", (RBI, 2005). But, what exactly be the amount of loan to be called as 'micro-credit' or 'small loan' is controversial till now and the same is considered as ₹ 50,000 per borrower either directly or indirectly through a SHG/JLG mechanism will constitute micro credit (RBI)[8] , again, for the purpose of exempting microfinance companies registered under section 25 of the Companies Act 1956 from core regulatory provisions of NBFCs, it has mentioned that, such companies are required by RBI to be engaged solely in extending microfinance up to ₹ 50,000 for small business and up to ₹ 1.25 lakh for housing in rural areas, (RBI Bulletin, Sept. 2005).

In the words of **Feroze and Chauhan** (2011), Micro-credit enables the poor people to be thrifty and helps them in availing the credit and other financial services for improving their income and living standards.

An inclusive meaning of 'Micro-credit' has been defined by the **Micro Credit Summit** held in February, 1997 in Washington, DC, as "programmes that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons", (Sundaram, 2007). So, the above definition is more inclusive one, rather than, what we called and understand about micro-credit is, as

8 As per RBI master circular- lending to priority sector no. RBI/2012-13/85, RPCD.CO. RRB. BC. No.6/03.05.33/2012-13. Link: http://rbidocs.rbi.org.in/rdocs/notification/PDFs/ 85MCRBPC300612.pdf

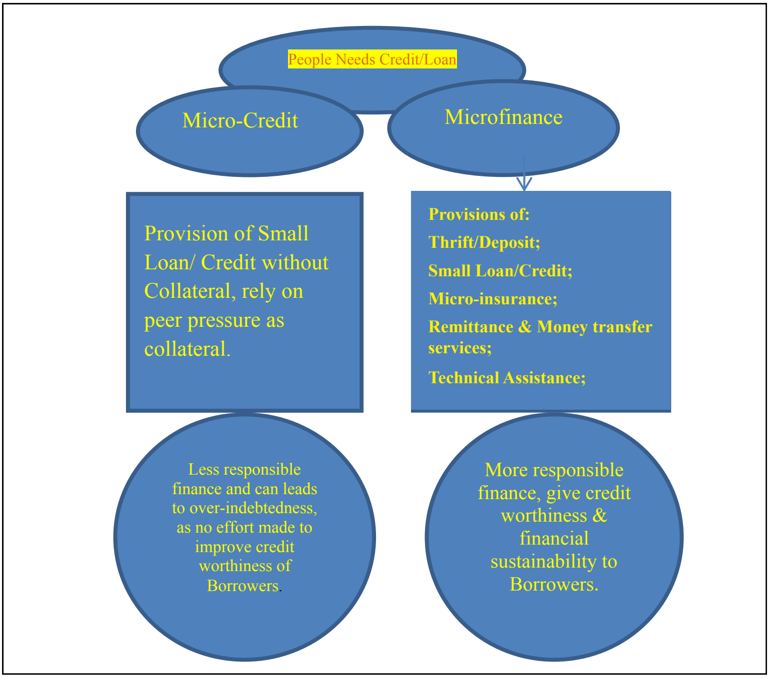
the mere provision of credit only, but that could be something more, as stated in the above definition, where 'savings' is also taken in the ambit of micro-credit.

1.7. Microfinance verses Micro-credit:

Microfinance, which includes the entire provisions of financial services and which are evitable for the development of the poor and deprived of our formal financial sector to have sustained financial stability for the improvement of their vulnerable conditions and to improve their living standard. Thus, microfinance obviously maintained the credit/loan aspect for the needy borrowers, but only extending credit is not sufficient to lift them from the curse of poverty. So, the concept microfinance comprises some other important aspect of financial and nonfinancial services, which is essential for the financial sustainability of the poor people. For that, 'microfinance' is the provision of small credit or loan, savings, insurance (i.e., micro-insurance), remittance and transfer payments along with providing services of technical assistance, guidance, skill development, capacity building, motivation training to start income generating activities, enterprises or industry and to enhance the productivity and credit worthiness (of the borrowers without collateral, the most attractive provision of micro-credit), either given to an individual or through group lending. Hence, it comprises a range of financial products and services under one umbrella, called 'microfinance' for the poor. Traditionally, microfinance is associated with programmes that benefit clients with serious substance problems in developing countries. For many years microfinance overlapped with microcredit-small loans, often without traditional guarantees, aimed at improving the lives of clients and their families or at sustaining small-scale economic activities, (Vento & Torre).

Contrary to microfinance, the ‘micro-credit’, which is the only provision of small credit or loan for the poor and needy borrowers to meet their credit needs, often provided without collateral and now on the basis of peer-pressure as the only collateral under group lending or under SHG models. As it was the credit needs of the poor for the evaluation and development of ‘micro-credit’ and then to ‘microfinance’, thus, the terms ‘Microfinance’ and ‘Micro-credit’ are often used interchangeably and treated as synonymous, but microfinance is much broader in scope and service, that includes deposits, loans, payment services and insurance (i.e., of living and non-living) to the poor (Manimekalai, 2004). The service of micro-credit and microfinance can be well understood from the following pictorial presentation:

Figure-1.1. How Microfinance is different from Micro-credit:



Source: Researcher own Compilation on the basis of secondary data.

So, the major difference of microfinance and micro-credit is not only with the provisions of each other, but for having some greater purpose and meaning of difference, as micro-credit provides loans and through credit/loan the borrowers can be sustained or may be bankrupt, because micro-credit doesn't care otherwise. But microfinance, is a concept which has been designed in such a way that, borrowers are compelled to get through lots of other benefits and services rather only credit and those are incorporated in microfinance to remove the vulnerability of the poor people as credit is not the only means to eradicate poverty. So, microfinance deals with many other objectives and offer various financial services and try to leads the poor, deprived, especially women towards financial inclusion.

1.8. Movement of Micro-credit to Microfinance- the reasons behind:

The change-over, from the concept and practice of 'micro-credit' to 'microfinance' is mostly for the need and demand of time to achieved many purposes, like, for alleviation of poverty, for giving better employment avenues, for giving better access to income generation, for developing saving habits, for capital formation to financial sustainability, to bring under Bank-net or financial inclusions, empowering the poor people, especially women empowerment to reduce discrimination and vulnerability, to provide a firm living standard by lifting them from BPL to APL[9] , etc. In all, the socialistic phenomenon to cope-up with the burning problems mentioned above cannot be removed only by 'micro-credit', which is the provision of only small loans for the poor. Of-course, micro-credit is the key to whatever revolutions we are witnessing today in the field of microfinance. But, only providing loans to the poor people and expecting all good without any care and attentions to the borrowers, who are in majority very poor and illiterate, (who mostly fail to succeed in the economic planning for their development) which is practiced in case of formal financial sectors[10] will not be successful, as that have been experienced by many botch stories in its history. So, it is not by micro-credit, rather needs a full range of financial services with easy access to credit (rather cheap and subsidies credits), provision of savings/deposits to give them financial sustainability, insurance coverage to avoid the risk of perils and some other facilities which form the part of essential financial services, that can meet the needs and will be able to attain the greater persistence behind micro-credit.

9 BPL Stand for Below the Poverty Line & APL stands for Above the Poverty Line, measured basically by the income level of the family.

10 By formal financial system we means the organized financial institutions like Banks both of public & private sectors, where criteria to extends credit/loans facilities is only depends on credit worthiness of the borrowers in terms of their financial position and collateral, thus poor needy borrowers are mostly ignore.

Again, the bad micro-credit or lending practices followed in the earlier decades by indigenous bankers[11], money lenders, capitalist, etc. (Paul, 2007) left such bitter experiences that many poor people even dared to die, but refused and hesitated to accept any loans, (Yunus, 2007).

So, it was the need of the hour and demand for the change and development of poor people and to eradicate poverty and other vulnerabilities, that 'micro-credit' flourished and became more inclusive and effective concept of financial services for the poor people, especially in poverty driven countries. So, these reasons can be summed-up as responsible for the movement of micro-credit to microfinance and more precisely presented below:

- Micro-credit is a collateral free credit, so the poor borrowers should be given an exposure to develop credit worthiness to remain as active borrower or we can say 'develop credit-worthiness to have credit'.

- Only credit is not sufficient to eradicate poverty.

- Having a provision of saving/deposit along with credit will bring financial sustainability among the borrowers.

- Risk of perils is like a shadow that exists in micro-credit transactions, so there is a demand for the provisions of micro-insurance to meet loss of credit/loan, if such arise after investment.

- Access to self-employment.

- For self-employment and to have independent source of earning and also to remove the exploitative practices of

11 According to the Indian Central Banking Equity Committee, 'An Indigenous Banker or Bank is defined as an individual or private firm which receives deposits, deals in hundies or engages itself in lending money. Indigenous Bankers constitute the ancient banking system of India. They have been carrying on their age old banking operations in different parts of the country under different names like Sahukars, Mahajans, and Chettys etc.

money lenders, micro-credit shape to new form.

- Bringing out the potentialities of the poor people and for establishing the reality or facts beyond conventional thinking as the poor are not credit worthy, micro-credit evolved to a new form.
- To reach the target of financial inclusion, some development with micro-credit arises and that leads to microfinance.
- The inability of formal credit institutions to deal with credit requirements of poor efficiently has led to the emergence of microfinance as an alternative financial system for the poor.[12]

1.9. Need and Significance of Microfinance:

The pioneers of microfinance Prof. Muhammad Yunus, in a lecture at Lakdawala Memorial, New Delhi on August 8, 1997, expressed his philosophy for eradication of poverty as: *The real eradication of poverty begins when people are able to control their own fate and given the financial support, however small, the poor are capable of bringing about an incredible change in their lives, (Sundaram, 2007).*

India is till witnessing 21.9 percent population below poverty line, comprises 25.7 percent in rural and 13.7 percent in urban areas in 2011-12[13], that even after 65 years of independence and despite of having huge net-work of our formal financial sector, the exclusion level remains high as only 40 percent of

12 The researcher traced on the above points for the development of micro-credit to microfinance from various secondary sources (both hard and soft copies of related materials), one of those sources is Shodhganga site, link: http://shodhganga.inflibnet.ac.in/bitstream//0603/3031/11 /n_chapter% 203.pdf

13 The percentage of persons below the Poverty Line in 2011-12 has been estimated as 25.7% in rural areas, 13.7% in urban areas and 21.9% for the country as a whole. The respective ratios for the rural and urban areas were 41.8% and 25.7% and 37.2% for the country as a whole in 2004-05. In 2011-12, India had 270 million persons below the Tendulkar Poverty Line as compared to 407 million in 2004-05, that is a reduction of 137 million persons over the seven year period. Link: http://planningcommission.nic.in/news/pre_por2307.pdf

adult population have access to savings account, 10 percent to life insurance, 5.2 percent villages have a bank branch, 97.7 million small farmers are covered by farm credit. Despite this, the exclusion level among people is estimated to be 40 percent, (Srinivasion, 2009). The deficiency of loans from formal institutions leaves the poor with no other option but to borrow money from local money-lenders at enormous interest rates and that leads them to suffer much exploitation, (Yunus, 2007).

Again, India is the hub of poor population, as **one third** of the world's total poor people are living in India[14] (Nelson, 2013), surprisingly, 68.84 percent of the total population of our country are living in rural areas or so called rural population (Census, 2011), lacking of many basic facilities, where services of banks and finance are more important to build financial sustainability and to bring economic empowerment among them, the key to eradicate poverty. Some other facts about Indian population are also miserable as, *more than half of Indian women are anaemic, more than 65% of rural households defecate in the open, three-fourths of households have access to electricity and only two-thirds of Indians reside in Pucca (Concrete) houses,* (CSR*, February, 2012), child labours, terrorism[15], unemployment, etc. are some other burning problems, increasing along with growing population of our country.

Blemishing Government, for the vulnerable population scenario as India is witnessing today for the shortage of policy measures, etc. to mitigate those problems will be half-truth of the facts.

14 One in three of the world's poorest people are living in India, the world's second-fastest growing economy according to a new study by the World Bank. India now has a greater share of the world poorest than it did thirty years ago. Then it was home to one-fifth of the world's poorest people, but today it accounts for one-third – 400 million poor people.Link:http://www.telegraph.co.uk/ news/ worldnews/asia/india/10003228/india-has-one-third-of-worlds-poorest-says-World-Bank.html

15 In a statement made by chief minister of Assam, recognizing the importance of microfinance and interested to provide microfinance facilities to the militancy affected areas like other areas and requested Assam GrameenVikash Bank to extend both physical and financial help in this regards. Further, Mr. TarunGogoi, had a talk with microfinance pioneer Md. Yunus and requested him for a visit to pay his attention for effective implementation of microfinance policy for the development of rural masses. So, microfinance is also an effective instrument as accepted for deescalating the problem of terrorism in Assam. (Assam Tribune, 1st March, 2007). * Competition Success Review, monthly career magazine, February, 2012.

Records reveal that, many policies and programmes[16] have been adopted by the government from time to time, to meet the requirements and to provide benefits to the poor people to improve their living conditions. But, most of the policies and programmes are in the nature of giving the benefits to the poor that have developed the dependency syndrome, rather to develop an environment of extending help to make the poor people self-sustaining and capable to earn their needs by their own. Unfortunately, the progressive slogans made, in most of the cases are being influenced by political intention, which in real sense does not help to mitigate the problems (Rogger, 2014). On the contrary, those who wanted to do something by dint of their own effort could not avail proper facilities or loans for collateral issue. So, the way-out of these, demands for an alternative and in this regard ‘microfinance’, which a provision that has gone beyond meeting only the credit needs of poor people, plays its role. Grameen Bank of Bangladesh sets an example world-wide, regarding performance of microfinance and how it is effective and could be an instrument for the eradication of poverty and other problems of the poor, especially for women (Yunus, 2007). Microfinance as financial services of the poor is working excellently, especially in the developing countries, for its generous features, thus recognizing its needs or importance:

- It is an effective instrument for the eradication of poverty in the poverty driven countries and interestingly most of such countries have already adopted various microfinance models and programmes.

- Microfinance facilitates self-employment which minimizes the burning problems of unemployment by creating productive job avenues and, according to NABARD report,

16 Some of the major Rural Development & Poverty eradication programmes are Integrated Rural Development Programme (IRDP), JawaharRojgarYojana (JRY), Employment Assurance Scheme (EAS), Development of Women and Children in Rural Areas (DWCRA), Indira AwasYojana (IJY), Training of Rural Youth for Self-Employment (TRYSEM), Swarnajayanti Gram SwarozgarYojana (SGSY), National Rural Livelihood Mission (NRLM), NREGA then MREGA etc.

a project of ₹ 1 lakh can create job opportunities for five people, (Assam Tribune, 3rd May, 2007).

- Microfinance programmes have been proved as very effective means of income generation for sustaining the economic growth of poor people in rural areas. The disadvantaged groups of rural masses, especially landless women workers, marginal farmers, artisans, etc. are entitled to receive micro-credit and that enables them to develop their socio-economic strength by means of income generating activities.

- Microfinance covers mostly the banking services, which includes loan, deposit, insurance, money transfer facilities and other financial and non-financial services, like technical service, skill development training, special industrial training, etc. that help the poor people who are deprived of direct bank service, and by that way, they are being taken towards 'financial inclusion'.

- Microfinance is an effective tools of building and extending social capital and solidarity within the local community for having constant interpersonal interaction for participation in solidarity circles and that construct a sort of bonding and holds local societies together, (Bateman, 2012).

- Women empowerment is a very important issue and microfinance's focus is on to bring 'economic empowerment' among the poor, especially women and once economic empowerment comes-in, other empowerments are followed by it.

- As microfinance is not a charity, so its services are not confined to any particular area or region, rather it spreads over to the places that need finance; as such it reduces regional imbalances.

- Microfinance leads to many micro-industries in the country and that demands for infrastructural needs in the rural and isolated areas and that compelling towards urbanization of rural areas.

1.10. Various Models of Microfinance:

The concept of microfinance involves informal and flexible approach to the credit needs of the poor; as such there is no single approach or model that can fit in all circumstances. As a result, a number of microfinance models/methodologies emerged from its inceptions and according to the needs in different countries and states, according to the suitability to their local conditions, for extending credit and other financial services to the poor people. Again, the models which are already in operation and considered as accepted models of microfinance, have been found with some changes/modifications in different functional areas for extending better service to the clients of microfinance in our country and also in other parts of the world, but, the researcher made modest effort to explain the models with care, giving due weightages to their basic features and functional modifications. The various popular models of microfinance are as follows:

i. **Comilla Model:** This is one of the oldest models of microfinance and is used in the project coined by Akhtar Hameed Khan in 1950, in East Pakisthan (later to become Bangladesh). In Khan's 'Comilla Model', microcredit was disbursed to the poor rural communities through village and sector based cooperatives. The basis of this model was to have an alternative financial service (i. e., loan/ credit) to the rich moneylenders and traders and to help the poor from usurious interest rates charged by them. There were many positive aspects to the 'Comilla Model', such as, the solidarity generated within the cooperatives, a feature that was also projected out into the community.

The model failed to flourish as much as had been hoped due to Pakistani government interference, elite capture, etc. but Comilla Model provided an obvious reference point for Yunus contribution in the field of microfinance, (Bateman, 2010).

ii. **Grameen Model:** This model was initially promoted by the well-known Grameen Bank of Bangladesh, which holds an iconic position in the world of microfinance. It is attributed with providing that 'the poor are bankable', the 'Grameen Model' has been replicated in more than 40 countries in Asia, Africa and Latin America with modifications to suit local conditions and cultures. The unique features of this model are:

- A group of 5 (five) members;
- Mandatory contribution to group savings and insurance fund;
- Individual saving and loan account with bank and avail individual loan after a fixed period of time;
- No joint liability of members for other members or guarantee for loan repayment of other members in case of default;
- Repayment responsibility solely rests on the individual members;
- Loans are provided for six months to one year duration;
- Loan repayments are made weekly;
- Bank staff maintains individual records of group members;

The problems with this model are, members of the group remain dependent on the bank staff / field officers for records maintenance and others group related activities and that cease empowerment of members, the problems faced by Grameen Bank in late 1990s insisted to develop new approach and Md. Yunus announced the launch of 'Grameen II' – replacing the earlier products by a new range of different terms, [(Sinha, 2003); (Yunus, 2007); (Bateman, 2010); (Hulme, 2009)].

The main elements of Grameen-II are:

- Major focus on savings, includes voluntary savings, term deposits, Grameen Pension Scheme (GPS);
- Provision of flexible 'basic loans' repayment period from 3 to 36 months (Rather under Grameen-I, 12 month loans);
- Introduced 'Joint Liability', the concept of social collateral;
- Poverty focused loans and subsidized loans to beggars, struggling members and encourage them to join Grameen bank centers;

iii. SHG (Self-help Group) Models:

This is one of the most popular models of microfinance and the only dominating model in India. SHG is a unique concept of forming unit of a group of people; especially women for their 'Self-help and Mutual help' with the concept of '***Saving first then Borrowing'*** basically, for raising the poor section of people out of poverty and to safe them from moneylenders and from their vicious circle of complexity. It is a group approach of people with homogeneity characters and considered as a better platform for the poor and vulnerable sections of the society to organize themselves around regular savings and lending behaviour as well as to get engaged in some income generating activities. As financial service delivery model, the

SHG approach is unique; it has emerged as a clearly superior model compared to the Grameen or MFI models (Srinivasan, 2008). Broadly, under 'SHG Models' three SHG-credit linkage models are functional in India, (Feroze & Chauhan, 2011). The details about those models are given in next chapter.

iv. MFI (Microfinance Institution) Model:

The MFI model is actively working in different parts of the world and also in India in the recent past, especially in the areas lacking in financial service from formal financial institutions, like, banks, etc. MFIs are the organizations or associations of individuals that provide financial services to the poor and serve as mediocre of donor institutions and borrowers of microfinance, it also extends progressive supports like general training, skill-development training, and awareness generation training, etc. along with microfinance to empower them. In MFI model, MFIs borrow large amount of funds from the apex financial institutions, donor and banks for on-lending to the individuals or group like SHGs, JLG, Individual loan etc. MFIs are basically NGOs, registered either under Societies Registration Act 1860, Indian Trusts Act 1882 or under Companies Act 1956 (under section 25) or non-registered organizations with diverse legal forms, size, outreach, mission and credit delivery methodologies, and in microfinance they are helping the poor to come out of their poverty, (Khanka, 2010) (Asif, 2011), (Mathew & Verghese, 2011) (Chatterjee & Dar, 2011).

v. Joint Liability Group (JLG) Model:

In this model, a group of 4 to 10 individuals are organized to form a 'Joint Liability Group', where all the members of the group are jointly liable for repayment of loan of defaulting members if any, and that joint liability/responsibility serves as only social collateral for the financial service providers. In India, many MFIs are gradually adopting this model for its easy formation process and for having less restriction regarding utilization of loans. NABARD is using this model for providing credit to the tenant farmers, cultivating land either as oral lessees or share croppers, small farmers without land holding, who had no collateral to have loan from formal financial sector. To serve such clients, JLG, an up-gradation of SHG models could be an effective way. The unique features of the models are:

- A group of 4 to 10 individual;
- Loan can be availed on mutual guarantee or on joint liability;
- No mandatory provisions for group saving;
- Primarily intended to provide loan/credit to the groups;
- Members to sign a 'joint liability contract' that makes each one jointly liable for repayment loan;
- Liability of defaulting members has to be jointly met by others members; (Deb, 2012).

vi. Individual Lending Model:

Under this model, individual can get loans without any membership of a group, as loan is directly provided to the individual borrowers. So, this is a straightforward model of extending loans directly to the borrowers as a result, the lending institutions have to keep frequent and close contact with the individual clients to provide credit products customized to the specific needs of the individual. This system is unique from other systems of microfinance; as members need not to face problem of formation of group and this feature of this model makes easy and faster service of credit to the borrowers. But, the degree of risk of repayment is high as the credit worthiness is the only factor on which the repayment of loan depends. As such, selection of borrowers is very important. The model is most successful for larger, urban-based, production-oriented business. This model is followed by many financial institutions like the ‘Association for the Development of Micro-Enterprises’ (ADEMI) in Dominican Republic, Bank Rakyat Indonesia, Senegal Egypt, Self-Employment Women’s Association in India, ASOMI, and RGVN in Assam etc.[17]

vii. Village Banking Model:

Village banking model expands the solidarity group concept to a larger group individuals, who are responsible for managing the loan. In this model, a Village Bank is developed by grouping 30 to 100 low-income individuals who seek to improve their lives through self-employment activities. The bank is financed by internal mobilization of members saving fund as well as loans provided by the sponsoring MFIs. The MFIs lend capital to the bank, which then lends money to its members. Members themselves run the village bank; they choose their members, elect their own officers, establish their own by-laws, distribute loans to individual and collect savings and payments. Loan amounts are linked to the aggregate amount served by individual bank members and loans are repaid weekly in small installments. Thus, village banks have a high degree of democratic control and independence. This model was developed in Bolivia during the mid-1980s by the Foundation for International Community Assistance (FINCA), a non-profit microfinance organization. The model is used by various MFIs like Co-operative for Assistance and Relief Everywhere (CARE) in Guatemala; Save the Children in El Salvador; Burkina Faso in Bolivia, Mali, and Ghana; Freedom from Hunger and Catholic Relief Services in Thailand and Benin, Opportunity International, Consultative Group for Assisting the Poor (CGAP), etc. (Karlan & Goldberg, 2007).

17 Source: Chapter-3, Microfinance trends, Problems and Prospects, from Shodhganga site, link: http://shodhganga.inflibnet.ac.in/bitstream//0603/3031/11/n_chapter%203.pdf

viii. Credit Union & Co-operative Model:

A credit union is a democratic, not-for-profit financial co-operative, owned and governed by its members, who are at the same time the owners and the customers of their co-operative society. Co-operatives are often created by persons belonging to the same local or professional community or sharing a common interest and co-operative generally provides their members with a wide range of banking and financial services. Members participate in all the major decisions and democratically elect officers from among themselves to monitor the administration of the co-operative and the loans are granted to the members only. SANASA Development Bank of Sri Lanka is an example of rural credit co-operative, which is successfully working as a microfinance service provider. The organization is successful in using the cooperative form of rural microfinance and has developed the Cooperative Development Forum (CDF), Hyderabad. CDFs approach has relied on credit union model, involving a 'saving first' strategy. It has built up a network of financial cooperatives based upon women's and men's thrift groups. With the initiative of CDF, Andhra Pradesh Government passed the Andhra Pradesh Mutually Aided Cooperative Societies (MACS) Act, 1995, for giving greater autonomy and operational flexibility, (Khanka, 2010).

ix. Mixed Model:

In this model some mixing-up of existing models are seen to provide the service of microfinance to needy borrowers more conveniently, thus, becoming a mixed model of microfinance. Some MFIs started with the Grameen model but converted to the SHG model at a later stage. However they do not completely do away with Grameen type lending and smaller groups and they are an equal mix of SHG and Grameen model, (Sinha, 2003).

x. Business Correspondent and Business Facilitators Model:

In order to improve the outreach of banks in the country to the financially excluded people, RBI permitted banks in 2006 to utilize the services of NGOs, MFIs (other than NBFCs), and other society organizations as intermediaries in providing financial and banking services through the use of business correspondent (BC) and Business Facilitators (BF) models. The BC model allows banks to do 'cash in-cash out' transactions at the locations closer to the rural population, thus addressing the last mile problem. The BC Model uses the MFIs' ability to get close to poor clients, a necessity for saving mobilizations from the poor- while relying on the financial strength of the bank to safeguard the deposits. According to the announcement made by Union Finance Minister in the Union Budget of 2008-09, banks were permitted to engage retired bank employees, ex-servicemen, and retired government employees as BCs from May 2008, in addition to entities already permitted earlier.

BF model is open to a wider range of organization, includes not only formally registered organizations, but also Farmers' clubs, community-based organizations, village organizations, like panchayats, etc. and under BF model, intermediaries are allowed to provide the following services:

- Identification of borrower activities;
- Collection and preliminary processing of application;
- Financial education;
- Submission of applications to banks;
- Promotion and nurturing of joint liability groups;
- Monitoring and recovery of loans;

The BC model is restricted to formal organizations like NGOs/ MFIs cooperatives and registered NBFCs who do not accept public deposits, and post offices. They are permitted to provide the above services; and in addition, the following services:

- *Disbursal of small value credit;*
- *Collection of principal and interest;*
- *Sale of other microfinance services (like insurance);*
- *Receipt of small value remittances, and other payments. (Khanka, 2010;).*

xi. Partnership Model:

This is relatively a new model of microfinance which has been adopted by ICICI Bank in the 2005, and a few other institutions such as HDFC (Housing Development Finance Corporation), and HUDCO (Housing and Urban Development Corporation). The model has been developed to breach the gap of service in SHG-Bank linkage programme as:

ICICI Bank partnered with select NGOs, having past experience in project implementation to assist ICICI Bank to develop the field organization for the promotion and management of SHGs. The ICICI Bank provided credit, savings and other services directly to the SHGs, apart from providing working capital assistance to the NGOs to meet the cost of promotion for the programme. The process involves lending money directly to MFIs clients, while the MFI serves the loan to the clients and charges service fee. Thus effective rate of interest to client is higher than the ICICI Bank official rate. MFI continues to originate, monitor and recover the loans until maturity in exchange of service charge. In addition, MFI must share the risk inherent in the portfolio generated by it and those risks can be of the following two types:

1. The MFI can open a locked savings (fixed deposit) account

amounting to a certain percentage of the portfolio (generally 10-15%), and create a lien in favour of the bank. When security is provided in this form, this amount should be deducted from the capital base of the MFI.

2. The MFI can open an overdraft account offered with the bank, not to be used until the default occur. This mode of risk sharing has been termed, First Loss Default Guarantee (FLDC). This means, if the FLDG is set at 10% (predefined by the bank and MFI), then the first 10% of defaults is borne by the MFI. [(Khanka, 2010), (Ananth, 2005)].

xii. Service Company Model:

This model is developed by ACCION and used in some of the Latin American countries. Under this model, the bank forms its own MFI, (perhaps as NBFC) and works hand in hand with the MFI to extend loans and other services. On paper, the model is similar to the partnership model as the MFI originates the loans and bank books them. The model has two interesting operational features:

- The MFI uses the branch network of the bank as its outlet to reach clients and that helps the clients to reach at lower cost than in case of a standalone MFI. In case of banks with large branch network, it also allows rapid scaling up. But in partnership model, MFIs may contract with many banks in an arm's length relationship. In Service Company model, the MFI works specifically for the bank and develops an intensive operational cooperation between them to their mutual advantage.

- The partnership model uses both the financial and infrastructural strength of the bank to operate at lower costs and generate faster growth. But in Service Company model has the potential to take the burden of over-seeing microfinance operations of the management of the bank and put it in the hands of MFI managers who are focused on microfinance to introduce additional products, such as individual loans for SHG graduates, remittances and so on without disrupting bank operations and thereby provide a more advantageous structure for microfinance. (Satish P. , 2008)(Thorat, 2005, May 3-5).

Xiii. 3M Model:

Market Research Team (MART) at New Delhi has developed the 3M (microfinance, micro-markets, and micro-planning) model, which is simple, scientific and practical approach for micro-enterprise promotion. Necessary survey is conducted in project area in local Haats (Market), Village shops, traders and other marketing system, the demand and microenterprise potentiality pattern and also on the available resources, like raw-materials, skill labour, infrastructure, etc. to understand the feasibility. Then, entrepreneurs already pursuing these activities are interviewed at length to know the problems they face and the solution they have evolved. The data gathered through the surveys is analyzed for preparing business plans for cluster level activities and practical implementation strategy for microenterprise development.

3M is a generic and practical approach to microenterprise development and a self-sustaining model as it relies on locally available resources, existing skill and local markets without depending on any external agency for support, (Kashyap, 2008).

Xiv. Commercial Model:

There is what is called ‘Commercial Model’ or ‘Latin American Model’ at the international level providing microfinance services. Allying with the formal financial system this model gives priority to enterprise creation and growth. There is no focus on social and community development, on the poor and marginalized women, (Sundaram I. S., 2007).

xv) South Asian Model:

The South Asian model, largely drawing inspiration from the Grameen Bank of Bangladesh, has its focus on women and poverty. Thus, it is developed to provide microfinance services to the poor people especially women to lift them out of poverty, (Sumdaram, 2007).

1.11. Conclusion:

Microfinance services are not only confined to providing only financial services to the poor, but it act as responsible finance for the poor to lift them from the grave of poverty. Thus, the concept and practices of microfinance became very popular mainly among the developing countries for its easy features to reach the poor and women. As social finance, microfinance covers a range of financial services where thrift and credit are the main factors to bring economic empowerment mostly among the deprived of our formal financial sector. Thus, in the provisions of microfinance it includes various financial services of small amount like thrift, credit, insurance, remittances, pension etc. for strengthening the economic condition of the poor, especially rural poor and women. The concept of microfinance is found fruitful and after the successful experiment, under the leadership of Md. Yunus of Bengladesh, his microfinance model popularly known as 'Grameen Model' now following in more than 40 countries and he changed the concept towards poor to finance and experimented how poor is credit-worthy. Microfinance became an effective tool of poverty eradication and employment generation and it attract women more than men and provide useful income generating sources and engaged such huge unproductive population in productive use. Some policy initiatives are also taken into consideration to spread the service of microfinance to the needy people and SGSY, NRLM etc. are noticeable in this regard.

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Self-help Group and SHG Models

Chapter - 2
Self-help Group and SHG Models

2.1. Introduction:

Microfinance, which mainly provides to the low income-group people to strengthen their economic position and to provide a decent standard of living. Microfinance is not the only or first initiative towards poor to strengthen their economic condition, but, some policy initiative and schemes were also implemented from time to time, primarily for eradication of poverty, but their success rates are not so impressive. Again,financing poor where they are unable to provide any collateral was a matter of risk and big challenge for the financers. Thus, the issue was not only lies with giving credit/loan to the poor, but some sustained process of financing was more important, where both lenders and borrowers can act successfully. Thus, the concept of group based financing system evolved, where credit is not disbursed to a single borrower rather to a group of people and the group is responsible for repayment of every members of the group and peer-pressure act as collateral. Many group based financing system have been developed, but in most of the cases their initial idea have been drawn from the 'Grameen Model' of Bangladesh introduced by Md. Yunus. The Self-help Group (SHG) models which is of Indian origin but its initial attention also drawn from the Grameen Model. SHG is a type of affinity groups of people upto 20 members or little more in some cases; join together for self-help and mutual help to have economic well-being. Generally the members of the groups need to be of same economic and social back-ground to have good homogeneity and used to run the group with the principle of Saving first Credit later. SHG Models are the approach or process of linking the matured groups for external financial helps to strengthen the groups and to improve economic conditions of the members. Generally, the groups are linked with banks by three linking methodology and those process of linking of SHGs are named as SHG Model-I, SHG Model-II and SHG Model-III. And most of the SHGs are credit linked under SHG Model-II or Model-II is dominating in microfinance service through SHGs in India.

2.2. Concept of Self Help Group (SHG):

A Self-help Group (SHG) is a group of person comprising of 10 to 20 members or a little more, members are of homogeneity in character, with some common purposes to have economic wellbeing for Self-help and mutual help, also known as solidarity groups. The SHGs are small informal groups aiming at collective action, generally formed by the funding agencies and voluntary agencies in the context of microfinance; the members pool their savings and relend it among themselves on a rotational basis. SHGs primarily deal with economic resources, which in turn empower people through the values of equality, participation, accountability and transparency (Sundaram I. S., 2007).

SHGs are the informal associations of up to 20 women (their average size is 14) who meet regularly, usually once in a month, to save small amounts (typically ₹ 10 to ₹ 50 a month), (Ghate, 2009). A SHG is a small, economically homogeneous and affinity group of rural poor which comes together to save small amount regularly to meet their emergency needs, depends on collective decision making, provides collateral free loans and resolves conflict if arise, through collective understanding. Thus, it is a small localized group of 10 to 20 persons from a homogeneous background and they are groomed by an NGO or a Bank branch or a Government agency called as self-help group promoting institution (SHPI), (Singh, 2008).

NABARD has defined the concept of SHGs as “small, economically homogeneous affinity groups of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members’ decision”, (Sobromonium, 2012).

According to the Planning Commission of India, SHG is a self-governed, peer controlled small and informal association of the poor, usually from socio-economically homogeneous families who are organized around saving and credit activities. Members of SHGs meet weekly or monthly and discuss common problems and share information to come at a solution. Group members make effort to change their economic and social problem through mutual assistance (Feroze & Chauhan, 2011). A SHG is defined as a self-governed, peer controlled information group of people with similar socio-economic background and having a desire to collectively perform common purpose.

The Tamil Nadu Corporation for Development of Women Ltd. (TNCDW) in its credit guidelines for SHGs, defines it as a small economically homogenous affinity group of rural poor, voluntarily formed to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic uplift of their family and community (Self Help Group-Shodhganga). SHG is an effort to free the poor from the vicious circle of complexity and it is considered a better platform for the poor and vulnerable sections of the society to organize themselves around regular savings and lending behavior as well as to get engaged in some income generating activities (Feroze & Chauhan, 2011).

Thus, SHG is a small informal group of some people; combined together for some common interest with the motive of self-help and mutual help along with the provision of regular savings, meetings, sharing, intra-group lending, collective decisions making and practices of some economic activity to have financial strength and sustainability of the members of groups, which in maximum consist of women members. As a social movement with government support SHGs become more or less a part and parcel of the society now.

2.3. Evolution of SHG Concept:

The concept of group lending and now as SHG, when and where it was exactly started in our society cannot be claimed accurately as no such documents and authentic evidences are available. It is presumed that, the group lending concept and some groups were there in different parts of our society in small and unorganized manner. Later on, those unorganized and scattered groups have been organized and linked to banks to avail greater facility of credit, by the pioneer of rural development NABARD, (Self-help Group). The cooperative movement in our country, popularly under Rural Credit Cooperative system has a greater impact in the development of Indian financial system both to formal and informal and the spirit of working with unity are also found. Mahatma Gandhi, who was the pioneer of co-operative system in India, believed that the soul of India lives in the villages (Debapriya, 2006). After independence, many efforts were made to bring the poor section under the financial service of formal sector and some of those efforts were institutional and some were by implementing some programme to cover the poor section under it’s service.

But, the origin of SHG is from the brainchild of Grameen Bank of Bengladesh which was founded by the Economist, Prof. Muhammad Yunus of Chittagang University in the year 1975 and the bank was established exclusively for the poor and women (Kumari, 2012).

In India, SHGs were formed by Mysore Resettlement and Development Agency (MYRADA), a NGO in 1985 due to breakdown of the large cooperatives. By 1986–87, there were nearly 300 SHGs in MYRADA’s projects and then approached NABARD for an action research project on self-help groups which funded the research. Within the same timeline, Asian and Pacific Regional Agricultural Credit Association (APRACA) weighed options and agreed on further action for effectively increasing credit access for the poor. In India, NABARD and a member of APRACA, carried out an elaborate study which gave useful insights into the dynamics of group organization, saving potential and repayment ethics of the poor. Encouraged by the results of the study and action research project of MYRADA, NABARD, in consultation with the Reserve Bank of India (RBI), Commercial Banks and NGOs, launched a pilot project in 1991–92 for linking of SHGs with banks. Thus, the microfinance activity is the result of NABARD's initiative, that started in February 1992, through an initial pilot project for promoting 500 SHGs. RBI had advised Commercial Banks in July 1991 to extend finance to SHGs as per NABARD guidelines and subsequently, the linkage project was extended to RRBs and Cooperatives. The Self-Help Group movement became a silent revolution within a short span in the rural credit delivery system in many parts of the world. It has been documented that nearly 53 developing countries including India, have taken up this on a large scale (Rao, 2011).

2.4. Objectives of SHG:

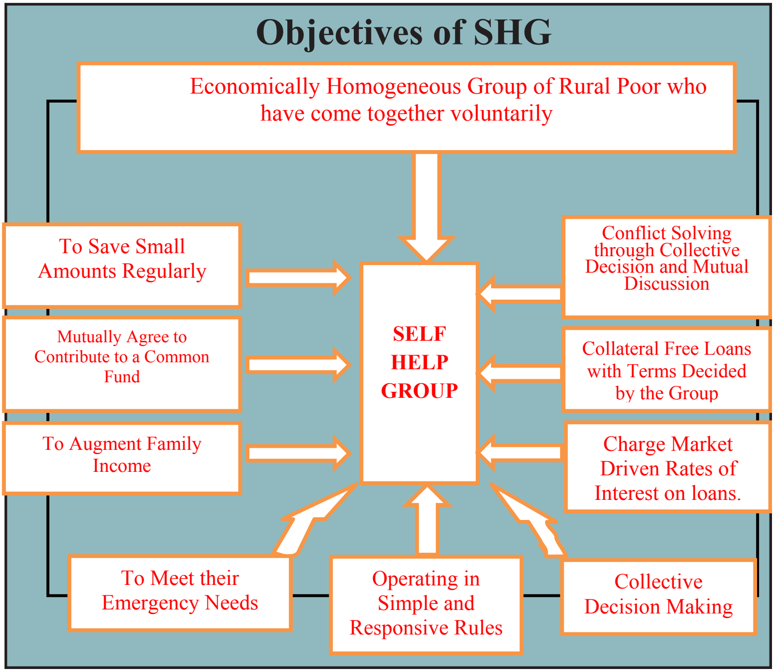
The SHGs are formed with the following objective:

- To promote savings habits;
- To mutually agree to contribute to a common fund;
- To have collective decision making;
- To meet small and urgent credit requirements by themselves;
- To provide collateral free loans with terms decided by the group at market driven rate;
- To augment family income;

- To develop economic conditions by earning independently;
- To avail bank loans and government financial support continuously;
- To enable availing of loan for productive purposes and repaying the same over the period of time;
- To solve conflicts through collective leadership and mutual discussion;

Further, the objectives of SHG are systematically presented as follows to show its usefulness:

Figure-2.1: Objectives of Self-help Group (SHG):



Source: http://www.nabard.org/shg1.sid.htm, &(Kumari, 2012).

2.5. Features of SHG:

Though SHGs are the small informal groups of some people, but the groups should have certain characteristics which are very important for persistence and sustainability of the group. As such, following features are generally seen in the SHGs, it is to be mentioned here that, some sorts of variations have been found in its features from place to place or in some other part of the world. But, the researcher made modest effort to present here the common features of SHGs:

- There should be minimum 10 and maximum 30 members in each SHG;

- It is desirable to have homogeneity among the members of the group in terms of economic condition, social status and life style;

- Only one person from a particular family can join the group, (NABARD);

- Provision of Voluntary membership;

- Group should have one Chairperson/group leader and one Secretary and they should be unanimously selected by members of the group;

- On formation of the group, accordingly they have to approach the nearest Bank branch to open a Saving Account in the name of SHG;

- Provision of compulsory Savings, whatever is the amount, but that should be regularly maintained by members and amount of savings should retain in Bank through the group leader/secretary;

- The members of the group can take loan from the group fund on needs, on the basis of decision and rate of interest charged by the group and loan amount have to be repaid within specified time;

- Groups consider loan requests in periodical meetings, with competing claims on limited resources being settled by consensus regarding greater needs;

- Loaning is mainly on the basis of mutual need and trust with minimum documentation and without any collateral/ security;

- The loan amounts are small, frequent and for short duration;

- Rates of interest vary from group to group depending upon the purpose of loans and are often higher than those of banks, but lower than those of moneylenders;

- To record the affairs of the group, they should have one minute book, members register, savings ledger book, loan records book, etc.

- Covering all rules and regulation of the group, they should prepare a chart of rules and regulation for smooth running of the group;

- On a regular interval and on a fixed day and time the group will arrange meeting, where members are free to keep their opinions;

- At periodical meetings, besides collecting money (i.e., savings or loan installments), discussion on various issues, like members health, child health and education, member's social and economic issues, problems of members, latest changes and development for group, etc. are also discussed; (Atma Sahayak Gut- SHG Small Investment Rules.) (Sundaram I. S., 2007). (Self Help Group-Shodhganga).

2.6. Need and Importance of SHG:

SHG is very effective and innovative approach to include the deprived section of people of our country to provide financial services and to bring the economic stability among them. It helps the individual to have access to institutional credit (Thara Bhai, Karuppiah, & Geetha, 2004). Formation of SHG is a viable alternative to achieve the objectives of rural development and to get community participation in all rural development programmes(Sarangi, 2003). Self-help groups are necessary to overcome exploitation, create confidence for the economic self-reliance of rural people, particularly among the women who are mostly invisible in the social structure. These groups enable them to come together for common objective and gain strength from each other to deal with exploitation, which they are facing in several forms. It also helps in building up relationship for mutual trust between the promoting organization and the rural poor through constant contact and genuine efforts. Self-help groups play an important role in differentiating between consumer credit and production credit, analyzing the credit system for its implication and changes in economy, culture and social position of the target groups, providing easy access to credit and facilitating group/organization for effective control, ensuring repayments and continuity through group dynamics; setting visible norms for interest rates, repayment schedules and assisting group members in getting access to the formal credit institutions (Satish P. , 2001). Thus, SHG disburses microcredit to the rural women for the purpose of making them enterprising women and encouraging them to enter into entrepreneurial activities. SHGs enhance the equality of status of women as participation, decision-makers control of members (Shylendra, 1999) and beneficiaries in the democratic, economic, social and cultural spheres of life and that help in their empowerment (Sarmah Bora, 2008-09-10).The rural poor is incapacitated due to various reasons such as; most of them are socially backward, illiterate, with low motivation and poor economic base. Individually, a poor is not only weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process (Self Help Group-Shodhganga). However, in a group, they are empowered to overcome many of these weaknesses, hence there arise the needs and importance of SHGs and further:-

- The SHGs are self-sustainable system of community organizations free from government control, thus enable long lasting group relationship.

- The social cohesion in the group and election/selection of the group leader in rotation give a sense of responsibility to each member of the group.
- For unity and collective effort, it developed labour productivity and strengthens income generating activities.
- To mobilize the resources of the individual members for their collective economic development.
- To uplift the living standard of the poor people.
- To develop a saving habit and utilization of available local resources.
- To mobilize individual skills for group's interest and betterment.
- To create awareness about their rights to bring empowerment among the members.
- To assist the members by providing financial help at the time of need.
- For having group lending mechanism by the sponsoring agency, no collateral securities are required at the individual level.
- It provides a platform to explore one's skills towards Entrepreneurship development.
- To identify problems, analyzing and finding solutions in the groups.
- To act as a media for socio-economic development of village.

- Lower transaction cost, as the financial intermediaries do not individually lend, hence less paper work, simplified process.

- To organize training for skill development, simply by informing the group leaders for assuring the presence of all the members.

- The recovery performance is better for the bank as the loan repayment mechanism is at the group level.

- To gain mutual understanding, develop trust and self-confidence.

- It is helpful in building up the spirit of teamwork.

- For holding regular meetings, trainings and dealing with lending agencies etc. develop leadership qualities of members.

- To use it as an effective delivery channel for rural credit and an alternative means of finance for the poor, especially women.

- The SHG approach is an effective system of including the deprived section of people towards financial inclusion.

The importance of SHG is mostly found for the women members, where they are treated not for any productive uses, and now women SHGs have become a movement in India. It is considered as the most powerful means to strengthen the socio-economic development of women through integrated approach (Leelamma & Jancy, 2004). Social empowerment, economic empowerment and capacity building are achieved through a series of training programmes, such as, maintenance of registers, personality development, communication skills and entrepreneur development programme(Santhanam, 2004). Thus, the growing importance of SHGs all over the world is comprehensible and the rural people, particularly the marginalized communities, have mostly benefited from SHGs.

2.7. Organization and Functions of SHG:

Generally, SHGs are promoted by Banks, NGOs, Government Departments and other institutions called Self Help Group Promoting Institutions (SHPIs). The SHPIs get the members together and guide them about the formation of the groups also help them to frame the rules and regulation fit for the group for its sustainability and smooth functioning. They also provide various awareness and skill building training like record keeping, accounts maintenance to capable them to run the group by themselves. The SHGs generally have members not exceeding 20 or a little more (like up to 30 members in case SHGs under MFI Bandhan, West-Bengal) of homogeneity in nature and each group selects one leader among its members. Though all the members are equally taking part in the group affairs, but the leader has to take some special care of the group (Sundaram I. S., 2007). The important functions entrusted to leaders are: ensuring participation of all in every meeting, arranging regular group savings by members, convincing the members for conducting the meeting at regular intervals, working for improvement of literacy of the group members, creating awareness of present social position and motivating the members towards collective thinking and action (Selvi & Radhakrishnan, 2004). Broadly, the functions of SHGs can be grouped as follows:

- ***Under Group Leader:*** The members of the group select or elect the group leader democratically. The leader has the responsibility to organize the group meeting and chair its proceedings. She/he maintains the group records and helps to facilitate the process of banking and other economic and social contracts.

- ***Group Meeting:*** The group meeting is organized weekly or monthly. That helps members to understand each other's problems better. The members of the groups have to be present in the meeting and their absence may draw fines according to bylaws of the group. All the major decisions like savings, loaning, admission of new members, etc. are taken in the meeting and savings of all individuals are collected in the meeting.

- ***Accounts keeping:*** Simple and clear accounts are kept for all the transactions and if none of the members are able to maintain the account, the group takes help from outside the group. He or she may be rewarded for the same; sometimes the animators or NGOs personnel help the group to maintain records. To avoid distrust among the members all transactions are recorded during the group meetings only (Sundaram, 2007). The books kept by SHGs are: Minutes Book, Savings and Loan Register, Members Pass Book, Weekly/Fortnightly/Monthly Register for receipts and payment records.

- ***Collection of Savings:*** The group members start savings of small amount (from ₹ 10 to ₹ 100 or more per month, but most of the members are savings ₹ 50 per month, (Ghate, 2009) on a regular basis. "Saving first-Credit later" is the motto of every SHG. The group may adopt flexibility as regard collection of savings in weekly basis, the amount of saving are generally collected in the meeting day and deposited in the saving bank account of the group by the leader.

- ***Build Common Funds:*** Through savings of members and by way of income from internal and external lending, they create funds for the group and their group fund is the strength for the members as to get the facility of external credit group fund is taken into consideration.

- ***Granting Loans/Credits:*** After saving for a minimum period of two to three months, the group starts lending among the members (i.e., members who seek loans) at a pre-determined interest rate with other terms and conditions from the common savings fund. Generally, intra-group loans are available for production as well as consumption purposes and interest rates vary between two to four percent per month.

- ***Group Income Generation:*** As collective efforts to have some income generating activities is a strong motive behind the formation of SHGs and that is to bring economic strength among the members of the group. Thus, at the time of formation, the group should fix the nature of activity their group will follow. Though, there is no restriction for having multiple income generating activities, but SHGs mostly rely on single activity. Members are also free to take some individual income generating activity apart from group activity to have some extra income.

- ***Dealing with Bank/MFI:*** It is an important function of SHG; group leader and members have to be active enough in dealing with their linking bank and MFI to procure various information, especially of external credit, training etc. the bank assesses the performance such as group size, regularity of meetings, saving collection of members, utilization of savings, loan recoveries, etc. after being satisfied about the validity of the group, the bank issues loan in the name of SHG. The quantum of loan generally varies between one to four times of the savings amount of the group, but it may be more than that, on the satisfaction of Bank (Feroze & Chauhan, 2011).

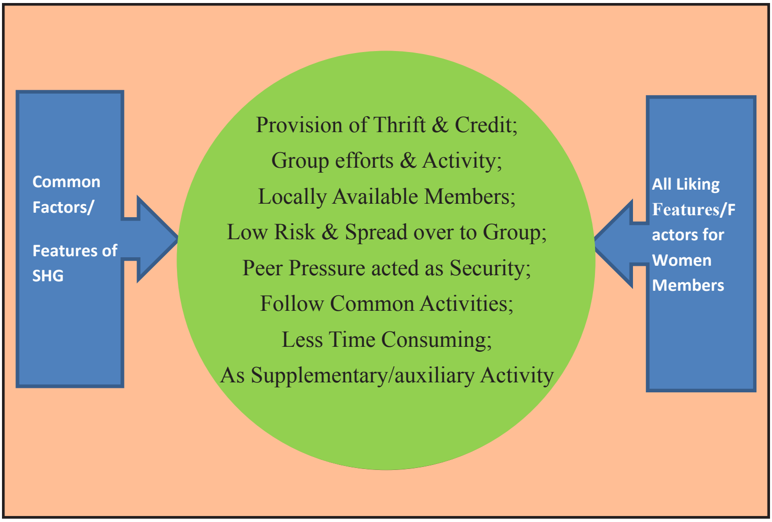
- ***Knowledge Development:*** In the regular meetings of SHG, members discuss on various subjects and share each other's knowledge and thoughts; as such knowledge communicates among the members. Again, SHGs are provided with various training like informative, industrial, entrepreneurial, etc. training to develop their skills and to make them productive for economic agent.

2.8. SHG and Women:

In the history of our comprehensive financial system and in other parts of the world as well, the woman sections are under-served or ignored, despite having various service wings. The fabricated believes that, women are not productive, weak, less credit worthy and dependent, etc. developed a barrier for not to transact with women clusters or ground for rejections. But, surprisingly, 62.99 lakh SHGs are only women SHGs, which is 79.1 percent of the total and they are regularly savings with Banks, that amounting to ₹5104.33 crore i.e., 77.9 percent of the total savings. Of the total amount of loan disbursed to SHGs in 2011-12, ₹14132.02 crore (i.e., 85.5 percent of the total amount) are disbursed to only women SHGs, which are 80.4 percent of the total SHGs. The amount of loan outstanding against only women SHGs up to March, 2012, is ₹30465.28 crore and that is 83.8 percent of the total balance of outstanding loan with 36.49 lakh SHGs, which is 83.8 percent of the total SHGs in India (NABARD, 2012). The position is more or less at par in other developing countries of the world and set exemplary achievement like Grameen Bank and Bangladesh Rural Advancement Committee (BRAC) of Bengladesh, Bank Rakyat Indonesia (BRI) in Indonesia, Bancosol in Bolivia, Bank for Agriculture and Agricultural Co-operatives (BAAC) in Thailand, NABARD in India, Amannah Ikhtiar Malaysia (AIM) of Malaysia, Agriculture Development Bank of Nepal (ADBN), K-Rep in Kenya and Mibanco in Peru have yielded encouraging results in alleviating poverty and empowering the poor especially women (Shodhganga). SHG approach of microfinance is a strong alternative method of financing the deprived sections of our society and women, which developed a sustaining financial stability and economic bases and ultimately including them to the financial system. Now, how and why has this been possible with microfinance and under SHG Models especially in case of India?

How and why SHG system is favouring for women: Among the various models of microfinance, 'the SHG models' became the dominating model. Again, it is dominated by the women members, especially by rural women for devising easy features of dealings and procedural norms. Women are basically hardworking but simple in nature, thus incapable to bear more risk, so group exertion and activities are their liking and SHGs under the SHG models satisfy the same, thus, it becomes very popular among them. An analytical discussion of the features of this model and reasons of liking or acceptance by women members will be more fruitful to claim as such.

Figure-2.2. Features of SHG liking to women members:



Source: Researcher own compilation on the basis of secondary data.

The factors mentioned in figure-2.2 are simple and liking for the women and can be easily managed by women members, thus the reasons for such momentum and speedy growth of SHGs in our country and SHG models became the leading model in India. The notable factor is that, women found it as supplementary/auxiliary income generating source after maintaining their regular family affairs and whatever income comes that supports their family. So, their interest gets the support of the male counterpart in most of the cases and that strengthen their confidence and enhances their interest to move ahead.

2.9. Problems with SHG:

Though SHG approach of financing became a unique concept of providing financial services to the poor, especially to women in our country, but the same is not free from limitations. These problems are inherent in the nature of SHG, which affect in the continuance and development of the group: [(Nambodiri & Shiyani, 2001), (Mishra, Verma, & Singh, 2001), (Sundaram, 2007)].

- Collecting members with socio-economic homogeneity is difficult;
- Leaders are either poor performer or dominate the group in most of the cases;
- The beneficiaries suffer from lack of education and technical skills;
- Provision of savings regularly for the poorest of the poor members is difficult;
- Joint liability and Peer-pressure is the only collateral to enjoy loan facility;

- Default in re-payment of loan, even by one member cause problems for the group;
- Most of the members lack risk-bearing ability required for entrepreneurship;
- Woman members still face marketing problems for selling of group products;
- Problems with records and accounts keeping;
- Dealing with Banks and Intermediaries;
- Lack of proper trainings and languages;
- No legal status to the SHG;

2.10. SHG Models:

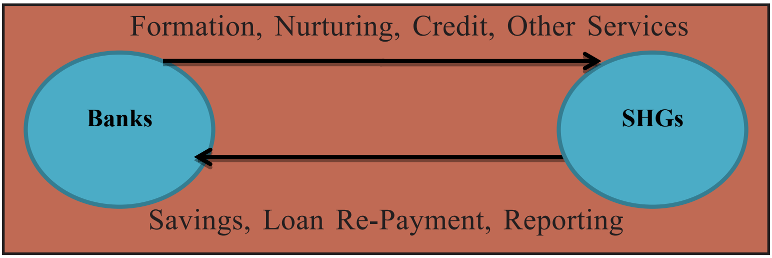
To provide the services of microfinance among the poor, various methods/methodologies are being used, but their ultimate motives are the same, that is to spread the facilities and benefits of microfinance close to the beneficiaries to make the service available and accessible. Those service providing methodologies, efforts, ways, systems, etc. are what is called 'Models' of microfinance. Among the various models of microfinance the 'SHG Models' have occupied a very important position in India and become the only dominating model in our country. The model is also popular in some other countries and this is Indian home grown model of microfinance, but the initial idea came from the 'Grameen Model' of Bangladesh. Many experts and researchers of microfinance have acknowledged the facts about the suitability of SHG Models in a developing country like India and have used the term 'SHG Model' and 'SHG Models' as synonyms to express the same things and meaning, but SHG Models or SHG Model comprises three

SHG- credit linkage models, called SHG credit linkage model as SHG Model-I, Model-II and Model-III and all these models are functional in India (Feroze & Chauhan, 2011).

SHG Model I: SHGs are Directly Formed and Financed by Banks:

In this model, the Bank itself acts as a Self-Help Group Promoting Institution (SHPI) and directly provides microfinance services to SHGs. Banks themselves take up the efforts of formation of groups, nurturing them over a period of time, opening their saving accounts and providing loans/credits to them after satisfying itself with the conditions to absorb credit facilities. So, SHGs are directly managed and controlled by the promoting banks and no mediocre service providers exist between Banks and SHGs. SHGs also directly deal with banks for savings, loans re-payment and for other services.

Figure-2.3. Working and Linking Process under SHG Model-I

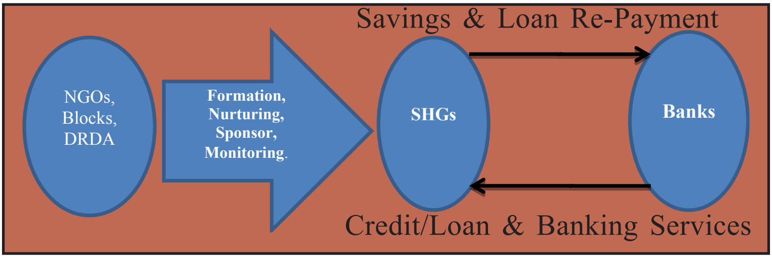


Source: Researcher own compilation on the basis of secondary data, from:(Nagayya, Rao, & Nageswara, 2010), (Feroze & Chauhan, 2011), (Subramanyam, 2012), (Krishna Reddy, 2012).

SHG Model-II: SHGs are formed by NGOs and Government Agencies but Directly Financed by Banks:

In this model, SHGs are formed by facilitating agencies like NGOs, Government Agencies or other Community-based Organizations. They facilitate in forming, organizing, nurturing of groups and train them in thrift and credit management. The banks, such as commercial banks (CBs) i.e., public and private; Regional Rural Banks (RRBs) and Co-operative Banks (Co-op. banks), provide loans directly to the SHGs. A large numbers of NGOs, Government Agencies like DRDA, Blocks etc. are actively working under this model. They arrange trainings on different income generating activities to develop income level of the members of the groups. So, the work of formation / promotion, nurturing, monitoring, etc. of the SHGs are done by some facilitating agencies and after some time or maturation of the groups, they are sponsored to obtain loan from banks and then banks directly finance them by linking and other banking transaction start between banks and SHGs as well. Thus, NGOs and other agencies are the non-financial service providers of SHGs and Banks are the financial and banking service providers. Among the three SHG models, this model is very popular in our country in terms of clients reached, numbers of SHGs, Loan disbursed and Loan outstanding, amount of Savings etc.

Figure-2.4. Working and Linking Process under SHG Model-II

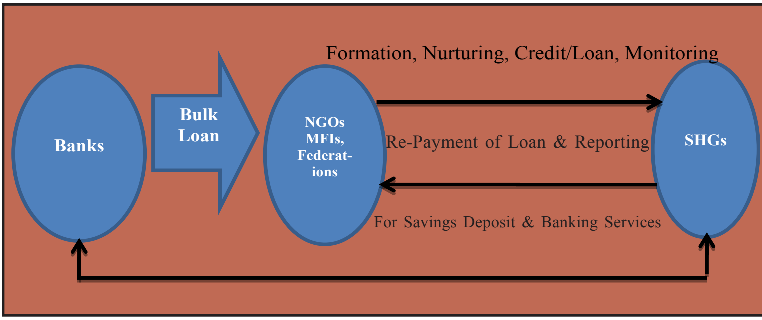


Source: Researcher own compilation on the basis of secondary data, from:(Nagayya, Rao, & Nageswara, 2010), (Feroze & Chauhan, 2011), (Subramanyam, 2012), (Krishna Reddy, 2012).

SHG Model-III: SHGs are financed by Banks using NGOs and Other Agencies as Financial Intermediaries:

In this model, microfinance institutions (MFIs), NGOs avail bulk loans from banks for on-lending to SHGs and others small borrowers. NGOs/MFIs take on the additional role of financial intermediaries (Feroze & Chauhan, 2011). In some part of the country, banks are not in a position to even finance SHGs promoted and nurtured by other agencies for many reasons. In order to overcome the constraints of formal banking system, the NGOs are encouraged to approach a suitable bank for bulk loan assistance for on-lending to SHGs (Nagayya, Rao, & Nageswara, 2010). Thus, NGOs, MFIs act as both facilitators and microfinance intermediaries in such cases. Banks finance these associations, who in turn, finance to their members SHGs. Other agencies like NBFC are coming up to take up this role.

Figure-2.5. Working and Linking Process under SHG Model-III



Source: Researcher own compilation on the basis of Secondary data, from:(Nagayya, Rao, & Nageswara, 2010), (Feroze & Chauhan, 2011), (Krishna Reddy, 2012), (Subramanyam, 2012).

2.11. Conclusion:

SHG concept of extending microfinance services has revolutionized in India and it is mostly accepted by the poor, rural poor and women. The approach has not only given access to the income generating means to the poor and deprived of our formal financial system, but also given them better economic security in needs and more or less banking services and leading towards financial inclusion, empowerment and decent standard of living to a greater extent.As, the lack of 'economic empowerment' which stand as a greatest challenge and reason of poverty for any country and without any effort to strengthen economic empowerment the concept of eradication of poverty will always be in vein. And, where the effort of microfinance lies-in and its SHG models are doing excellent, especially SHG Model-II, in reaching poor and vulnerable people with the hope of financial products to make them capable towards self-development and to remove their vulnerability. SHG Models are found effective in providing financial services without collateral and in practice the engaged people become 'credit-worthy' and can hope for better days ahead due to financial support through SHG.

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Review of Literature

Chapter - 3

Review of Literature

3.1. Introduction:

Microfinance, as a provision of alternative financial service to the poor, especially for women and deprived section in our country and as well as in other developing countries have able drawn attention from the policy makers to the service pursuers, owing to its magic performance and achievement in providing financial and other services. Microfinance services are delivered among the needy borrowers by various methodologies or system and those service providing approaches/ methodologies are called 'Models' of microfinance and among its various models, the 'SHG Models' which are India's home grown Models are becomes the only dominating model in our country. The poor, especially rural poor and women are getting the benefits of microfinance services by forming SHG and that enable them to have savings, access to credit facility in needs, augment family income and other services, as a result their economic conditions are strengthen and they are gradually including towards formal financial system i.e., from 'financial exclusion to financial inclusion', which would not have been possible otherwise, in such easy way under microfinance. In this chapter attempt has been made to review the available literatures of the past research work relevance to the present study and to its objectives. The studies available on the Performance of SHG Models of Microfinance and on some related dimensions of performance have been reviewed. And related literature have been gathered and presented objective-wise under the following broad headings and sub-headings as suitable:

a. **Microfinance Performance: Unfolding Magnitude and Trend under SHG Models, Social finance etc.**

b. **Microfinance Performance: Unfolding Loaning and Re-payment Performance, Savings, Income Generation, Financial Inclusion and Women Empowerment, Poverty Eradication etc. through SHGs.**

c. **Problems of Sustainability associated with SHGs and with its members and Programmes.**

a. Microfinance Performance: Unfolding Magnitude and Trend under SHG Models, Social finance etc.

3.2. Microfinance- *Finance for the Poor:*

Naithani, (2001) who critically examined in his study about how microfinance is helping, for all round development of the poor and expressed some authors have also advocated for extending this concept to other areas like basic education, health, infrastructure development etc. to help poor in three ways, firstly to help in overcoming their economic problems; secondly, to empower the vulnerable section of the society and lastly it can be instrumental in ensuring better human development.

Gupta, (2007) in his study mentioned, SHG approach proved as a realistic alternative among poor to borrow money instead of informal market at an interest rate much higher than market rates. For this the spirit of co-operation should be instilled in SHGs. It is also apparent that Indian economy can't wait, without improving the economic conditions of poor. Banking with the poor is a profitable business opportunity for both the poor and the financial institutions in India.

Mahajan, (2009) in his study critically examined that, when the scope of microfinance is increased to cover the combination of savings, credit and insurance services, then a MFI can make a sustainable contribution to poverty alleviation and this is departure from earlier thinking that only credit is what the poor needs. But rural and urban poor are lack of the skill set or inclination to become self-employed and for them; the most important financial service needed is savings and later credit, which is usually initially used for consumption needs. Only after a certain stages of income credit can be used for 'productive' purposes.

Arun, Hulme, Matin, & Rutherford, (2009) viewed that, the development of microfinance sector is based on the assumption that the poor possess the capacity to implement income-generating economic activities but are limited by lack of acccess to and inadequate provision of savings, credit and insurance facilities. Again, the developments in microfinancial services have been based on a proto type delivery model that is considered the best answer to capture financial need of the poor in various socio-economic and instituational systems.

Giving more importance to the savings aspect of microfinance, **Rutherford, (2009)** mentioned that, although their incomes may be tiny or irregular, there are many times when poor people need sums of money that are bigger than what they have in hand. The need for these 'usefully large lump sums' arises from life-cycle events such as birth, education, marriage and death, from emergency situations and from the discovery of opportunities to make investments in assets or business. The only reliable and sustainable way that they can obtain these sums is to build them, somehow or other, from their savings. So poor people have to save and financial services for the poor are there to help them find ways to do so.

Recognizing various benefits of microfinance, Rabinson, (2009) in his study apprently mentioned that, microfinance matters because it increases the options and the self confidence of poor household by helping them to expand their enterprises and add others, to decrease risks, to smooth consumption, to obtained higher returns on investment, to improve management and increase their productivity and incomes, to store their excess liquidity safely and obtain returns on their savings, to escape or decrease exploitation by the locally powerful, and conduct their business with dignity. As such the quality of their lives improve, childern are sent to school and child labour decreases. In addition, the economically active poor who are able to expand their economic activities often create jobs for others; among those who gain employment in this way are some of the extremely poor.

Khanka, (2010) in his elaborative study on Microfinance from 'Evolution to Revolution' expressed that, poor in India so far been suffering from the financial exclusion of formal financial institutions due to the lack of collateral, high transaction cost, small size of loan etc. and as against these backdrops, the concept of microfinance, based on Prof. Yunus of Grameen Bank, Bengladesh, has been evolved as a means of financial inclusion of the poor based on the philosophy of 'credit without collateral'. By now, microfinance has been adopted as an effective intervention of financial inclusion and poverty alleviation in over 40 countries in the world.

Panda, (2010) in his study reveals that, microfinance in the sense of small loans to the poor is of ancient origin, not only in India but also in the entire world. Traders and moneylenders in India have traditionally provided credit to the rural poor, usually at exorbitant rates of interest along with undesirable and illegal practices like bonded labour. But today's microfinance involves lending to the poor at reasonable interest rates from Government and private institutional sources.

Some MFIs have been engaged in working with hard core poor that are not bankable with a view to bring them to a level where they can pursue their livelihood activities with confidence and be able to access services from mainstream institutions. While SKS microfinance was an early entrant in this initiative, Bandhan, Ujjivan and Equitas are active in this space. While Bandhan has a large programme covering more than 50,000 beneficiaries with support from Axis Bank, the others have a smaller scale. These programmes select extremely poor families and provide them initial support for food security and livelihood assets and training, so that the income level improves **(Srinivasan G., 2013).**

3.3. Performance of Microfinance:

In recent years, numerous successful experiences in the field of microfinance have contributed to spreading the idea that the improvement of living standards of the poorest can be realised not just through small loans for production requirements, but also through a wide range of financial services. Thus, modern microfinance has begun to offer more sophisticated products compared with simple microcredit in response to the more complex needs of the new target clients **(Trezza).**

Microcredit is now almost unanimously considered as a financial technique , since it needs a very modest volume of resources, is able to contribute in a significant way to the development of those economic activities that benefit from it. The key of such success mostly depends on its main technical features. Thus, microcredit shows its maximum effectiveness in those cases where the beneficiaries have adequate technical skills in the production of marketable goods and services, but lack of the financial means for their commercialization and distribution **(Vento, The Main Features of Microcredit).**

Asian Development Bank in a study recognized the performance of microfinance and mentioned as the pioneer microfinance organisations such as the Grameen Bank of Bangladesh have exemplified with their remarkable success in the field of microfinance and the better performance of disbursement of micro loans and recovery rate which have attracted the attentions of many in the world. During the mid of 2000, the three of the largest microfinance institutions ASA, BRAC and the Grameen Bank, reported more than 6 million active members, cumulative loan disbursements of US $ 4.5 billion and mobilisation of more than US $ 19 million savings **(Bank, 2000).**

Most, but not all, microfinance programmes focus on women and women have shown to repay their loans more often and to direct a higher share of enterprise proceeds to their families. Worldwide, the Microcredit Summit Campaign reports that 80% of microfinance clients are female. However, the percentage of female clients varies considerbly in variation with region, with the highest percentages in Asia, followed by Africa and Latin America, with the fewest women served by MFIs in the Middle East and North Africa **(Karlan & Goldberg, 2007).**

Since, the 1980s microfinance has become important component of development, poverty reduction and economic regeneration strategies around the world. By the early twenty-first centuary ten of millions of people in more than 100 countries were accessing services from and semi-formal microfinance institutions. It has become a vast global industry involving large numbers of govermnents, banks, aid agencies, non-government organisation, cooperative and consultancy firms and directly employing hundreds of thousands of branch-level staffs **(Arun & Hulme, 2009).**

3.4. Performance of Microfinance in India:

The progress of SHG-BLP in India from 1999-2008 under SHG models are shown and a linear trend line was found and that indicates that there is steady incresase in the number of credit linked SHGs over a period of 10 years and the value of R2 is 0.9155, which represents a good performance **(Shodhganga).**

Jha, (2002) in his study expressed about the success of microcredit in Bangladesh from the lesson of successful microfinance model in Bangladesh, which is the example for any country and can accept the lesson to learn and efforts to tackle the twin problems of massive poverty and unemployment.

The evolution of SHG Bank-Linkage Programme could be viewed in terms of three distinct phases, viz., (i) pilot testing during 1992-1995, (ii) mainstreaming during 1996-1998 and (iii) expansion from 1998 nowards. The cumulative number of SHGs credit-linked to the banks showed a significant expansion from 255 as on March 1993 to 16.18 lakh as on March 2005 **(Reddy Y. V., 2005).**

Basu, (2009) found in her study found that, the failure of the formal banking system of our country, leads to an alternative approach of financing to the poor and to reach them with microfinance facilities. Some authors has brought those matters in to light as though the Indian banking system become inclusive but it failed to cover the rural poor. According to the RFAS,2003 (Rural finance Aceess Survey), a some of 59 percent of the rural household don't have a deposit account and 79 percent of rural household have no access to credit from a formal source and bank branches of rural areas serves the needs of the richer-borrowers.

Jindal, (2009) in this study pointed out that, the MFI sector in India is highly heterogeneous and only a few of the MFIs have significant outreach with substantial volumes of credit, these MFIs are already regulated as NBFCs, but the remaining MFIs that constitute the bulk are generally very small and operate on small geographical area. A move to regulate these MFIs presently is likely to curb their growth and throttle their slender development initiatives. The imperative needs is thus more for developmental framework rather than a regulatory framework.

Parhi, (2009) conducted a case study on Bandhan and expressed that, Bandhan believes that a consumption loan will only trasiently augment the purchasing power and will not serve the purpose of poverty reduction. Poor women take loans for purchasing food, clothes or repaying loans. What required is the initiation of a forum whereby the poor are equipped to generate income for themselves. Once the extra income is generated, it will automatically meet the consumption needs of the clients and Bandhan lends out for income generation purposes.

The Indian microfinance sector presents a strong growth story and its growth performance was impressively sustained through the liquidity crunch and continued at an increased rate in the second half of 2009. As of March 2009, the MFIs in India reported a client base of 22.6 million with an outstanding portfolio of more than $ 2 billion. Over the past five years, the sector has delivered a CAGR of 86% in the numbers of borrowers and 96% in protfolio outstanding **(Capital, 2010).**

The small beginning of linking only 500 SHGs to banks' in 1992, had grown to over 0.5 million SHGs by March 2002 and further to 8 million SHGs by March, 2012. Together the 8 million SHGs of the poor maintain a balance of over ₹ 6,550 crore in the savings Bank accounts with the Banks. Over 4.4 million SHGs are regularly availing credit facilities from the Banks and during 2011-12 alone, over 1.15 million Groups availed loans amounting to ₹ 16535 crore from banks and together 404 million Groups have loans to the extent of ₹ 36340 crore outstanding against them with the financing banks as on 31.03.12, **(NABARD, 2012).**

The SHG Bank Linkage Programme (SHG-BLP) continues to be the leading model in India and to make the approach and design of SHG-BLP more flexible, guidelines were issued by NABARD on March 27, 2012 suggesting some client friendly product level changes in tune with the changing needs of customers under SHGs, such as allowing voluntary savings by members with surplus funds, which could be maintained separately or used for intra-group lending; providing need-based access to funds and longer tenure of credit from banks through the introduction of cash credit system to avoid the need for frequent documentation and also delays in the renewal of loans to SHGs **(RBI, 2012).**

3.5. Performance of Microfinance in North-East and Assam:

Das, D. made a study in Nalbari and Baksa district and expressed that, banking infrastructure is particularly poor compared to the other district in Assam and there are about 100 MFIs in north eastern region, but very few branches of MFIs operate in Nalbari and Baksa. There is still a significant credit gap in rural lower Assam and substantial for the expansion of formal microfinance institutions in these areas, as shown by the huge clients base and loan portfolios of the informal institutions. The absence of MFIs in these areas is surprising, where the large number of MFIs are competting for clients in Upper Assam. The results of the study suggest that there is strong reason for MFIs to enter the market in lower Assam as well.

Moulick, (2008) mentioned how microfinance as informal credit intervene for lack of access to formal financial institution has led to the emergence of informal system based on local socio-economic structures and needs. These includes tradional institutions, such as Marup (Manipur), Sanchoi Samities (Assam), Village Development Board (Nagaland), Village Darbar (Meghalaya) and Kebong (Arunachal Pradesh), all deeply rooted in regional culture. There are some other institutions such as Namghars and Pujaghars, Singlups and Maharis in Assam,, Manipur and Meghalaya, respectively.

Rao, (2009) in its report mentioned that, microfinance has emerged as an important sector in many countries for providing financial services such as savings, credit, insurance and remittance services to the poor. The study was made in collaboration of NABARD and APMAS, on 109 SHGs from 9 blocks of 4 district of Assam. It revealed that, the SBLP yielded social and economic benefits to a high percentage and more than 80 percent SHGs have experienced increase in income, and more than 50 percent experiences increase in expenditure on food, education and health; and about 75 percent experienced decline in family debts, interest burden and dependence on money lenders; more than 80 percent have positive experience about women leadership development.

Shamim & Khan, (2010) in their study explained that, microfinance has come to include a broader range of services in rural area; they are usually small farmers and others who are engaged in small income generating activities such as food processing and petty trade. In urban areas, microfinance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc. Despite witnessing numbers of problems those are faced by SHGs to develop the system of micro financing in India, even there is tremendous scope for the development of micro financing. Though India has made certain in-road in the field of microfinance, there are some vital issues that need to be addressed like setting up a supervisory body like National Centre for Excellence in Microfinance, streamline legal framework to remove the infirmities, documentation, stamp duty, records and books of account, grading of SHGs etc.

Due to various topography and other bottlenecks the microfinance service began lately in North-East Region (NER) than from the rest of the country. The loans received by the NER currently account for only 2 percent of the total amount of loans received in India. In financial year 2009-10, the total loans disbursed in the NER were only ₹ 28716.99 lakh, 68 percent of which was in Assam. Tripura accounted for 22 percent, and no other state received above 5 percent **(Srinivasan N. , 2010)**.

Sharma, (2011) conducted a study on Micro Finance in the North East, reveal that, the institutions like 'Sanchays' in Assam 'Marups' in Manipur are well known and bearing the capacity to loan even lakh of rupees within minutes, thus evidencing about the existence of microfinance in the NER since its inceptions, but not in the form propagated by Md. Yunus or NABARD. Again, RGVN has been playing very active role in NER, since 1990 the year of establishment, for its innovative returnable grants scheme for helping NGOs dealing specially in livelihood of the poor. By 2010 the numbers of such organizations soot up to seven hundred in NER.

Yadav, Saikia, & Deka, (2013) made a study in Tinkhon Block of Dibrugarh district mentioned that, the rural economy of Assam is greatly influenced with the revenue earned by different SHGs run by the women, as SHGs provide place the unemployed women for self-sufficiency and self-employment.

Deb Nath (a) & Nath, (2013) in their study in Barpeta district of Assam, cited that, microfinance is a driving force of rural development, and same have been seen among the women of Barpeta district, which deals in microfinance under SHG models. The result depicts that, the SHGs are facing some problems owing to small loan size, lack of training, SHG management/monitoring etc. good sides is that, women of the district are more creative and hardworking, though presently they are engaged in traditional activities, but special care about innovative business ideas will materialized and can make the involved members more beneficial.

3.6. Microfinance Performance under SHG Models in India and in Assam:

In SHG small investment rules of ASOMI, it is mention that, we have huge productive labour and resources, but lack of capital they are not utilized. And microfinance through SHG are doing excellent job in our country. There are three SHG-Credit linkage models and all the models are functional in Assam. Model-I where SHGs are formed and promoted directly by Banks, model-II SHGs are promoted by NGOs/Govt. agencies, but financed by banks and model-III where SHG are promoted and financed by NGOs/MFIs, for example- ASOMI of ASSAM **(Atma Sahayak Gut- SHG Small Investment Rules.).**

Traditionally, those people who benefit from microfinance are citizens of developing countries who struggle to provide for themselves, known as 'the poorest of the poor'. Within this category, women are of particular significance since they constitute the group that is most affected by financial exclusion in many developing countries. Moreover, numerous studies have shown that women are generally more capable of paying back microcredit than men and manage to invest the funds received in more profitable enterprises **(Torre)**.

SHG-Bank Linkage Models has been developed in India to provide microfinance with the help of vast rural network of the formal financial sector. In these models, the informal SHGs are credit linked with the formal financial institutions. It shows that the microfinance programme in India is dominated by Model-II. It is found that up to March 2006, 20.1 percent of the total credit linked SHGs are formed under Model-I; and those groups were provided 14.4 percent of the total bank loans disbursed under the programme. About 74 percent of the total SHGs are formed under Model-II and groups were provided 80.7 percent of the total loans. Share of Model-III is relatively small and 4.9 percent of the total loan fall under this model **(Shodhganga).**

In India as well in NER, microfinance is basically delivered to the rural poor in three different models. SHG-Bank linkage model (Model 1) involves the SHGs are formed and financed directly by the banks. One of the distinctive features of the SHG-Bank Linkage Programme has been very high on-time recovery and as on June 2005, the recovery was 90% in commercial banks, 87% in RRBs and 86% in cooperative banks. Under Model-I and Model-II, the NGOs or MFIs charge the same rates of interest. SHGs receive colleteral free loan from banks at commercial rates of interest, presently varies from 8% to 13% p.a. on reducing balance **(Roy).**

Dasgupta, Namboodiri, & Shivani, (2001) in their study traced the development of the microfinance programme in India through SHGs model. According to their study, the SHGs system was initiated in India by the Non-Government Organisations (NGOs). From then the new group approaches such as Self-help group (SHG) has became the slogan in the country.

Srinivasan & Satish, (2001) undertaken a study in four states, regional rural banks as well as commercial banks and both the models of linkages, such as directly to SHGs as well as indirectly through NGOs were studied. The study results revealed that the transaction cost of lending to SHGs might be slightly more than the normal lending for the first loan. But in case of subsequent loans it was observed that reduction in transaction cost was nearly 48.5 percent. In case where lending is done through the NGOs, transaction cost reduction is by 90 percent as compared to normal lending by bank branches. The risk cost was also reduced between 0.03 percent to 0.27 percent in case of lending to SHGs, whereas it was as high as 8.06 percent in normal lending. The models of profitability worked out reveal that even without a portfolio of high value advances rural branches can turnaround if a substantial portion of their lending is through the SHGs route. The reduction in transaction cost to the borrowers is also substantial. The study observes that the linkage between banks and SHGs worked out to the advantage of both the players.

Barik & Vannan, (2001) in their study expressed that, the project of linking SHGs with Banks has gained momentum in India from 1992. They also reported that three board models have emerged, model-I: Bank SHG, Member found 14 percent, model-II: bank (facilitating agency) SHG-members formed 70 percent and model-III: Bank-NGO-MFI-SHG-members formed 16 percent of SHGs linked during 1999-2000.

Namboodiri & Shiyani, (2001) found that, the SHGs promoted by the NGOs had a better saving performance compared to that of SHPI (Self-help Groups Promotional Institution). However, the repayment performance of the SHGs promoted by the SHPI was superior to that of NGOs.

Kropp & Suran, (2002) mentioned in their study that, three different models of promoting credit linkages have been found feasible and applied in India with special emphasis on forming new SHGs. Model-I: SHGs formed and financed by banks (16% of total SHGs); Model-II: SHGs formed by NGOs and formal agencies, but directly financed by banks (75% of all SHGs financed); Model III: SHGs financed by banks using NGOs and other agencies as financial intermediaries (only 9% of total). And out of the 461,478 SHGs (on March, 2002) only 16% were facilitated by bank branches exclusively (Model-I without any NGO being involved) and 75% were linked with banks by initiatives of their promoting/establishing/ nurturing NGOs or the Government, while only 9% of the SHGs were having established financial transactions with NGO financial intermediaries directly (Model-III). Some representatives from NGOs maintain that their groups are the most stable and sustainable ones.

Tankha, (2002) in his study mentioned that,the SHG-bank Linkage Programme has its origins in a GTZ-sponsored project in Indonesia. Launched in 1992 in India, early results achieved by SHGs promoted by NGOs such as MYRADA, prompted NABARD to offer refinance to banks for collateral-free loans to groups, progressively up to four times the level of the group's savings deposits. The programme encompasses three broad models of linkage: Model I: In this model the bank itself promotes and nurtures the self-help groups until they reach maturity. It accounted for 16% of cumulative bank loan, Model II: Here groups are formed and supported by NGOs or government agencies. The dominant model, it accounted for 75% of cumulative loans of banks. Model III: In this model NGOs act as both facilitators and MF intermediaries and it account for 9% of loans by March 2002, under these models.

Gariyali & Vettivel, (2003) conclude in their study about the SHG movement in Tamil Nadu, that SHGs in the state have changed the mindset of men towards women and that they are becoming a platform that all government programmes want to use them, which is a measure of their success.

The Indian Microfinance sector is a museum of several approaches found across the world. Indian microfinance has lapped up the Grameen blueprint; it has replicated some aspects of the Indonesian and the Bolivian model. In addition to the imported artifacts of microfinance, we also have the home-grown Self-help group model, **(Srinivasan & Sriram, 2003)**.

Mishra & Thanvi, (2004) considered that, microfinance movement is the most sustainable and effective tools for poor and disadvantaged sections to access institutional credit through different models. There is a huge scope to improve the businesses of rural banking branches in one hand and the several non financial sectors such as intermediary institutions, NGOs, and SHGs, on the other hand can generate more income for their sustainability and alleviation of poverty of the massive poor.

It is considered that microfinance movement is the most sustainable and effective tool for poor and disadvantaged sections to access institutional credit through different models. There is a huge scope to improve the businesses of rural banking branches in one hand and the several non-financial sectors such as intermediary institutions, NGOs and SHGs, on the other hand can generate more income for their sustainability and alleviation of poverty of the massive poor **(Mishra & Thanvi, 2004)**.

Subbiah & Navaneeth, (2006) mentioned that, there are three models under the SHG-Bank linkage programme, about 72% of the SHGs are formed by NGOs/government agencies and they like to financed by banks. They also stated, the programme has been advantegeous not only to members of SHG but also to the banks.

Shankar, (2006) conducted a study on the efficient credit models of microfinance in Tamil Nadu and mentioned that the most popular model for the dispensation of micro-credit in India is the group-lending model. As per Sa-dhan report, group loans accounts for 93% of the microfinance in India.

Srivastava & Agarwal, (2007) in their study mentioned that, microcredit is a financial innovation which was conceptualised in developing countries and as per RBI sources, there are three models of micro-credit disbursement viz., model-I, directly associated to the SHG without intervention of any NGO, at present this model has 16% share in total micro-credit disbursement. Model-II, directly associated for loans to the SHG with the facilitation by NGO and other formal agencies. This model is the most commonly used model with 75% share and model-III, where the NGOs directly associated which occupies almost 9% share in the total credit disbursement.

Sundaram, (2007) mentioned that, the SHG-bank linkage programme sprear headed by NABARD combines the strength of the formal credit system and the flexibility of the informal credit system. The programme has emerged as the single largest microfinance programme in the world. The SHG concept gained prominence in several developing countries. The SHGs have produced positive results in empowering the poor through credit. There are about 1000 microfinance institutions in India. The SHGs provide a forum for the collective voice of the poor against common oppression and exploitation and women and SHGs have become a movement in India. Women have developed abundant self-confience and self-esteem through

SHG movement.

Satish, (2009) made a study pointing out about the models of microfinance and mentioned that, a significant features of microfinance innovations in India is that through all variations of microfinance models and technologies are in existance, the most widespeads with regard to depth and outreach are the linkage models. He also mentioned about SHG-bank linkage models, Bank Partnership model, Banking Correspondents, Service Company model etc. The basic features here is that financial resources are being sourced from regular banking chennels as well as members' savings. NABARD's SHG-bank linkage programme and other linkage programmes with MFIs have shown the path forward for accessing mainstream finance exclusively from the formal banking sector for microfinance.

Ghate, (2009) in his book mentioned about microfinance models performance in providing benefits to the members. It has also mentioned, the SBLP is a home-grown model and unique to India, at least on the scale at which it is carried out. The major advantage of the SHG model is the empowerment and participation, which has engendered in millions of rural women, currently 31 million of which, half are below the poverty line. It also has the advantage that it can spread much faster, taking advantage of India's huge network of bank branches and potentially of primary Agricultural Cooperative Societies (PACSs). The main disadvantage is that the average loan size goes up much more slowly than in the MFI model because it is tied to savings performance and the loan cycles are much longer i.e., in average 2.5 years as opposed to the usual one year under the MFI model.

Srinivasan N. , (Sustainability of SHGs), **(2009)** in his study found that, as financial services delivery model, the Self Help Group approach is unique; it has emerged as a clearly superior model compared to the Grameen bank or MFI models.

By emphasizing savings before credit it takes care of both the legs of basic financial services. People's participation is fully ensured with autonomy for the groups of poor in credit decisions. Linkage to bank branches enables groups to access loans as also keep their savings safely. The banks are far more confortable in financing the poor through this mode as they find the risk and transaction costs to be low.

Thekkekara, Impact of SGSY on SHG: Bank Linkage, (2009) mentioned that, the success of the SHG model has inspired much confidence around the world as a community driven programme involving the rural poor to strengthen their vulnerable condition.

Manickam, (2009) in his study mentioned about Pandyan Grama Bank SHG Linkage Model, Pandyan Grama Bank, a regional rural bank, was established by Indian Overseas Bank on 9 March 1977 under the RRB Act 1976. The main purpose of establishing the bank was to cater to the financial needs of the rural people in its command area to augment their income, enabling them to come out of the clutches of money lenders and to lead a reasonable, standard life. The bank is operating in six southren district of Tamil Nadu which are industrially backward. The bank has a network of 165 branches of which 111 are located in rural areas and 50 in semi-urban centres. SHGs are linked after stabilization for six months in savings, meetings, records keeping, effective groups savings utilization and recovery thereon and linkage are extended in the ratio of 1:1 to the size of accumulated savings in first stage and therafter in the ratio of 1:2 , up to 1:4 or to the actual requirement for the activity undertaken by the group. The group members are also covered under Life Insurance Corporation of India's group insurance scheme, Janashree Bima Yojana. Childern of the members are benefited with scholarships for their education as part of the insurance scheme.

Ramchandran, (2009) write about the Prathama Bank farmer's club model and this model has amply demonstrated that, where-ever good NGOs are not available, community-based organizations are capable of promoting and strengthening SHGs provided the right environment is created by the banks. The model has demysatisfied the pro-gender slant of SHG-bank linkage by promoting and linking more men's SHGs and also prove that word-of-mouth publicity, cheap and simple, is more effective in retention, growth and responsivness of customers in a service sector like banking. All cadres of bank staff, as also farmers' club volunteers and SHG volunteers, are provided training under SHG-bank linkage programme so as to involve and utilize all human resources available for success of the scheme. This active combination of bank's human resources with sincere and missionary efforts of volunteers has resulted in a synergic and cascading effect of forming more than 13170 SHGs and bank credit linkage of 9120 SHGs as on 30 Sept. 2005.

Mohanty, (2009) made a study on 'Bidar DCCB-PACS Model' and found that, Bidar DCCB initiative was the first major break thruogh in the cooperative sector in taking steps for formation of groups and linkage. The model has proved that cooperative can effectively include the poor in their business and development activities and also proved that credit can be provided to the poor not as a charity but on commercial lines. It has shown that generating demand for banking through SHGs can spur not only economic but also social empowerment in rural areas.

Santhanam, (2009) in his study has shown an innovative approach using Anganwadi Workers (AWs) as promoters of SHGs by the Chandrapur District Central Cooperative Bank (CDCCB) Ltd. in Maharastra. The success of microfinance in Chandrapur district can be attributed primarily to the social intermediation carried out by AWs and without this the phenomenal repayment of SHGs would not be possible. In other words, the poor require the support of those whom they can trust and in this respect the services of the AWs have proved to be beneficial as they are local and recognised persons. Therefore, using AWs for promotion of SHGs has become a '**model**' for the CDCCB-ZP partnership in development. This model has aptly demonstrated that AWs have the needed skills in organizing rural women into groups and nurture them to function as SHGs, provided the AWs are given the right type of motivation. SHG-bank linkage was first introduced in CDCCB in Dec. 2001 and up to Oct. 2005 the bank has credit linked 7018 SHGs and had a stock of over 12200 SHGs, it was estimated that AWs were responsible for about 60 percent of the SHGs promoted and credit-linked with bank.

Mohapatra & Karmakar, (2009) in their study mentioned about innovative credit delivery systems and those interesting innovations have been vexed out in different states and regions with the SHG concept to meet the specific requirements of the people. These innovations have been the result of need-based interventions and reflect the flexibilities possible in the SHG Models of credit delivery. Rythu Mitra Groups is an example formed in Andhra Pradesh to meet the credit techonology, market etc. for the need of the small, marginal and tenant farmers.

Karmakar, (2009) in his study on 'Microfinance Revisited' mentioned about the need for SHG federations especially in areas where mature SHGs have graduated from micro-savings to micro-deposits to micro-credit to micro-enterprises over a span of years. The **Kalanjiam Model** of Development of Humane Action (DHAN) Foundation is a fine example of such SHG federation providing value-added services and training for SHG members to develop into micro-enterprises eventually. Again mentioned that, in SHG-bank linkage patterns Model-I linked up to 20% SHGs including RRBs, Commercial Banks, DCCBs and PACS, Model-II account to 74% SHGs includes State govt. in AP, Rajasthan, MP and Model-III accounts for the rest.

Singh, (2009) in a study about microfinance service delivery models in India mentioned that, those services are mainly provided by two models viz., SHG-bank linkage model and MFI-bank model. The SHG-bank linkage model has emerged as the more dominent model due to its adoption by state-owned formal financial institutions. The MFI-bank model too is gaining importance due to the massive support it gets from banks and foreign funding agencies.

Rao G. B., (2009) made a study in four districts of Assam viz., Cachar, Kokrajhar, Sivsagar and Sonitpur on the quality and sustainability of SHGs revealed that, sample groups earned a good amount of income total of ₹21, 27,906 since their inception, the average being about ₹ 20,000. Out of total income of ₹21, 27,906, the groups in Sonitpur earned 64%, i.e. ₹ 13, 61,099, the groups in Cachar earned only 3.4%, i.e., ₹72, 948 and groups in Kokrajhar and Sivasagar earned about 16% each. Among the different promoters' groups, the groups promoted by self/ community/DRDA (Model-II) earned over 68.7% of total income, the NGO (Model-III) groups earned 27.7% and under banks (Model-I) groups 3.6%. The main source of groups' income is interest earned on internal and external loans and second most important source of income is profit earned from group activities. These two sources together accounted for over 91% of the total income. Out of total 109 sample groups, 88 groups reported interest income. Except in Cachar, over 80% of groups in each district reported interest income. In Cachar, only 50% of groups reported interest income.

Veerashekharappa, Shylendra, & Guha, (2009) in their comperative study on Karnataka and Gujarat expressed that, SHGs of Karnataka are mostly formed under SHG Model-I i.e., 53.54% followed by Model-II upto 29.85%. But in Gujarat 69.98% SHGs are formed under Model-II, followed by Model-III upto 23.07% by March, 2005. The similar result are seen in credit disbursement as in Karnataka more than half of the credit are disbursed under Model-I in 2005, but in Gujarat more than half (57.69%) of loan are disbursed under Model-II in 2005 and there was a rising performance of Model-III.

Nagayya & Nageswara Rao, (2010) made a study on various microfinance models, like SHG model, SHG Federation model, Grameen model, JLG model, Co-operative model etc. and mention SHG Model is the main model in India and more than 90 percent of SHG members are female only. Again, among the three SHG Models, Model-II is working well in India and as per NABARD report, the cumulative picture of all India SHG-Bank linkage programme shown on March, 2006, model-I accounted for 20.1% of SHGs credit linked, and 14.4% of amount advanced as loan by banks; model-II accounted for 73.5% of SHGs, and 80.2 % of amount; and model-III accounted for 6.4% of SHGs, and 4.9% of amount of loans. So, model-II is followed mostly in many parts of the country,where SHGs are promoted by NGOs/Govt. agencies and financed directly by banks. Model-I is practiced in north-eastern region, karnataka etc. model-III is extensively used in Kerala, though model-II is follwed to a greater degree. In Andhra Pradesh and Tamil Nadu, model-II is followed almost exclusively; with very little presence of the other two models.

Gaonkar, (2010) mentioned her study about NABARD role in the development of SHGs in our counrty as chief promoters and the significant growth of SHGs in the country over last decade is on account of high priority given by NABARD and Government. The important indicators of SHG Bank Linkage are described in the models as SHG formed and financed by Bank under model-I, SHGs formed by NGOs and directly financed by Bank under model-II and SHG financed by banks through NGOs as financial intermediaries under model-III.

Feroze & Chauhan, (2011) in their study also mentioned about the SHG Models and stated as all the models are functional in India i.e., Model-I, Model-II and Model-III, and among these models, model-II, where SHGs are financed directly by banks, but Govt. agencies viz., DRDA or NGOs etc. act as facilitators. About 75 percent of NABADR's microfinance till March, 2002 used this model of linkage.

If we analyse the entire microfinance system which are in existence at present at different parts of the world, especially in developing countries like Bangladesh, Indonesia, Mexico, India etc. we can broadly identify two modles of microfinance i. e., commercial approach and community-based participatory approach. Community-based participatory approach lays emphasis on forming small groups to solve common problems and mainly covers the marginilised people of the society. These groups are known by various names viz., Self-help Groups, Joint Liability Groups, Common Interest Groups, Solidarity Groups etc. In India, SHG approach is the main group-based microfinance system, **(LOGOTRI, 2006) (Feroze & Chauhan, 2011).**

Microfinance services are provided in India through a variety of delivery models ranging from very popular Self-help groups, and Co-operative and adopted model like Grameen methodology etc. But, at present there are two main models of microfinance delivery in India: SBLP and MFIs model and SBLP (under SHG Models) is the only dominating model in India and extensive progress have been recorded in client reach, availing loans, savings etc. **(Batra & Sumanjit, 2011)**.

Uppal, (2011) expressed that; three models are in use for linking SHGs with bank for better credit facility and financial inclusion. Again, the performance of each model varies in terms of service out-reach, as under Model-I, 4.49 lakh SHGs were linked and ₹1637 crore bank loans were disbursed, under Model-II, 16.46 lakh SHGs linked and ₹ 9200 crore were disbursed and under Model-III, 14.3 lakh SHGs and an amount of ₹561 crore were disbursed as bank loan by March, 2006. Of the three models under the SBLP (Model-II), the SHGs promoted by NGOs/ Government agencies and financed by banks have emerged as the most dominant model in the case of India.

Hariom & Kumar, (2012) made a study; whose objective was to study the model-wise growth of micro finance in India. The findings of the study reveals that SHG Model-I in which SHGs directly manage and financed by Banks and Model III in which MFIs financed by Banking or funding Agencies for on-lending to SHGs, both have increasing trend in savings, loan disbursement and bank loans outstanding to SHGs in absolute terms, but in growth perspective, these shows different pictures, sometime amount growth rate more than the number of accounts and in another side the growth rate in the number of accounts more than the amount growth rate in the same year. So, the NABARD and the RBI which are the apex financial institution in India, both are make efforts for making the consistency in the growth rate and try to minimize the decline rate through making better policy regarding encouraging voluntary agencies, bankers, and socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture SHGs.

The SHG Models are promoted by Indian government and it involves groups of roughly 10-20 women, who save amongst themselves and distribute their pooled savings as credit amongst the group. These groups are commonly linked to commercial banks for getting loans and group is responsible for repaying the bank loan, **(Kline, 2012).**

Three models have emerged in the SHG-Bank linkage programme (i.e., Model-I, II & III). There are, however, no significant variations in the annual growth rate of household income across SBLP models, though there are some variations in the base level of income from the lowest of ₹ 29019 in model-III to the highest of ₹ 36142 in model-II and that in case of model-I ₹ 34789 (NCAER, 2008), thus, this explains why model-II becomes the predominant and most popular SBLP model in India. The average level of savings per household reported as₹

6714, ₹ 5984 and ₹ 2948 under model-I, II and III respectively, changes in Assets per household reported as ₹ 3233, ₹ 4923 and ₹ 4133 and average loan per household in post SHG reported as ₹ 14282, ₹14922 and ₹ 14202 respectively under model-I, II and III (NCAER, 2008). Again, as per NCAER (2008) survey, 92.0% of households reported that the social empowerment of women has increased over a period after joining SHGs. The percentage of households reporting improvement in such empowerment was highest in Maharashtra 95.4%, followed by Orissa 94.4%, Karnataka 93.6%, Andhra Pradesh 91.5%, Uttar Pradesh 90.3% and Assam 86.5%. This percentage was highest in Model-III (95.1%), followed by Model-II (91.7%) and Model-I (91.4%), **(Ghosh M. , 2012)**.

NABARD has recently acknowledged SHG's inadequate outreach in many regions in recent years, delays in opening of saving accounts and disbursement of loans and non-approval of repeat loans even when first loans are repaid on time. This has motivated NABARD to prepare a strategy to revitalize the SHG movement leading with the induction of SHG-II model, with the primary function to the promotion of savings-led credit product **(Deepti, 2012).**

Sarmah & Das, (2012) in their study remark about the income of SHG members after joining SHGs, as that before joining of SHG 15.6% respondent were no income and none of the respondent had income more than ₹ 2000. But after joining SHG there is no respondent without any income and 6% of the respondents crossed their income level above ₹ 2000, and 138 respondents out of 250 representing 55.2 percent have monthly income of ₹ 1001- 2000 after joining of SHG.

Arora & Meenu, (2012) in their study disclosed SHG models wise performance from 2007-08 to 2009-10 and as performance under Model-II recorded as 50.09 lakh SHGs had a saving balance of` ₹ 3785.39 crore in 2007-08 which were increased to 69.53 lakh SHGs and amount of savings to ₹ 6198.71 crore by March, 2010. Same as regard to the bank loans outstanding was to 36.25 lakh SHGs was ₹ 16999.91 crore reached to 48.51 lakh SHGs and bank loan increased amounted to ₹ 28038.28 crore from 2007-08 to 2009-10. Under Model-III, 1109 lakh SHG were linked and amount of outstanding loan was ₹ 2748.84 crore in 2007-08 increased to 1513 lakh SHGs and outstanding loan amounted increased to ₹ 10147.54 crore by March, 2010, thus recorded worthy progress during the period of study.

Das L. , (2012) in her study highlighted about SHG Bank linkage Programme which started in 1992 has grown exponentially over two decades and around 74.62 lakh SHGs are linked to different Banks up to 2011. Of these nearly 65 per cent have direct credit link with bank. Out of these 74.62 lakh SHGs 60.98 lakh are women SHGs. Though savings of number of SHGs with the bank is increasing over the years the growth rate of SHGs in percentage terms is declining from 22.21 in 2009 to 7.3 in 2011. Again it is observed from the data (NABARD) that, with regard to amount of saving with banks percentage of women SHGs has increased from 1.46 percent in 2009-10 to 17.8 percent in 2011. But as regards to the growth in amount of loan disbursement to SHGs, the data shows a continuous declining trend from 40.8 percent in 2008-09 to 18.1 percent in 2009-10 and 1.6 percent in 2010-11. Whereas, percentage growth in loan outstanding is gradually declining from 39.4 percent in 2008-09 to 13.4 percent in 2010-11, showing a positive aspect about microfinance in India.

Deb Nath & Shil, (2012) mentioned that, SHG model stand first among all other models considering its performance sepecially in clients reach, income generation, women empowerment, shrinking poverty, thus leading towards Human Development. The model also bring effects on education, health and family planning and improving standard of living and life expectancy, the three major factors to strengthen HDI.

Sarania, Mazumdar, & Dey, (2012) reveals that, since the introduction of financial sector reforms in 1991 the banks are using three linkage models to finance SHGs, known as Model-I, Model-II and Model-III. The SHG-Bank linkage programme has started picking up significantly in the NER states during 2010. The micro credit and services of microfinance has tried to bring out the poor especially women, from below poverty line and fight against the poverty through deploying the financial and non-financial services.

Schendel, (2013) made a Comparative study about results for good income aspirations in Bolangir, where Model I includes SHG membership as explanatory variable and Model II takes SHG savings as an alternative proxy for expanded economic opportunities. SHG membership and savings are highly correlated and therefore entered separately. In order to test the joint effect of economic opportunity and agency on income aspirations, it was include the interaction terms (SHG membership * control over life) and (SHG savings * control over life) in the models. From the model with SHG membership it appears that the main effect of SHG membership on aspirations is a distinctly positive one, but this positive effect is smaller for women reporting relatively high levels of control, as witnessed by the fact that the interaction term of SHG membership and feeling of control over life is significantly negative.The same pattern emerges from model II; women who feel more in control of their life have a weaker tendency to translate more SHG savings into higher income aspirations, while the aspirations of women who feel less in control of their life are boosted by SHG savings. A difference with Model I is that the stand-alone effect of feeling in control in 2010 is highly significant in model II, thus having a feeling of control over life positively affects good income aspirations for women even in the absence of SHG savings. In model II, also women who felt in control over their life in 2008 have higher income aspirations in 2010, like we observed in Model I, but here the effect is stronger.

Bhagowati, (2013) in India, majority of micro credit activity is under the 'Banking model' (NABARD's Bank-SHG Linkage i.e., SHG model-II) and 10-15% of the activity is through 'MFI model' (i.e., under model-III). High repayment rate has encourage banks to institutionalize SHGs under the bank-SHG linkage model. According to RBI Guidelines, banks may give loans to SHGs up to ₹ 5 lakh without insisting on collateral safety.

Shil & Debnath, (2013) in their study mention some liking provision and purposes of rural credit co-operative and SHG Model, as rural credit Co-operative and SHG Model of microfinance are targetting the same objects of rural development and financial inclusion. The common and friendly features of Co-operative and SHG model of microfinance are reasons for such achievement as regard gathering people, especially rural people and women, involving them in economic activities, generating income, developing savings habit etc.

b. Microfinance Performance: Unfolding Loaning and Re-payment Performance, Savings, Income Generation, Financial Inclusion and Women Empowerment, Poverty Eradication and on other related issues of SHGs.

3.7. Performance on the Developmental Parameters:

Puhazhendhi & Jayraman, (1999) reported that, the SHG members taking up more than one activity increased from about 30% during pre group formation situation. They undertook supplementary activities such as animal husbandry, poultry etc. and non-farming activities like petty shop, kirana shop, flower selling business etc.

Puhazhendi & Satyasai, (2000) made an impact study under the guidance of NABARD in 11 states in the country, have revealed that 59 percent of the households reporting increase in assets, with the average value of assets per household increasing by 72 percent. Almost all members developed saving habit after joining this programme and the annual number of savings registration have increased three times. Moreover, annual borrowings of SHG members increased by 95 percent. The net income per household increased by an average of 33 percent, with about 43 percent of the incremental income generated coming from non farm sector activities followed by farm (28 percent) and off-farm (29 percent) activities.

Dwarakanath, (2001) reported that the DWCRA programme helped the rural women to earn an additional monthly income ranging from ₹ 250 to ₹ 2000 depending on entrepreneurial activities taken up by them.

Savings is considered as one of the important components of SHG-Bank Linkage programme, where the slogan is 'savings first-credit later' unlike other programmes where emphasis is put on credit only. A disciplined savings habit boost the confidence of SHG members and lead to better performance of SHGs. Amount of savings per member during a given period varies widely from ₹ 5 to ₹150 per month **(Kumar B. , 2005) (Datta & Raman, 2001) (Kundu, Suhag, Pandey, & Jain, 2001) .**

Puhazhendi & Badatya, (2002) conducted a study commissioned by NABARD in three different states indicating the economic and social impact of the SHGs-bank linkage programme and revealed that 45 percent of the sampled households reported of an increase in the value of the assets by 30 percent after becoming the members of the group. About 23 percent of SHGs reported an increase in savings rate over a period of time. Mean annual savings of members of SHGs increased by 96 percent over the pre-linkage period. The study also report of a positive impact of the programme on employment and poverty status of the members that out of those below poverty line in the pre-SHG situation have been moved above poverty line by 15 percent.

Purkayastya, (2004) conducted a study in Assam and found that the high recovery rate has encouraged many banks to provide microcredit through SHGs which has helped the microcredit movement in the state.

Basu & Srivastava, (2005) in their study mentioned that, Indian microfinance has continued growing rapidly towards the main objective of financial inclusion, extending outreach to a growing share of poor households and to the approximately 80 percent of the population, which has yet to be reached directly by the banks. The world Bank-NCAER Rural Financial Access Survey for Andhra Pradesh and Uttar Pradesh found that only 21 percent of rural households have access to formal sector credit, although as much as 41 percent had a deposit account in a formal institution.

Microfinance in India is making steady and satisfactory progress and NABARD has set a goal of covering 10 million poor, i.e., one third of the country's total poor population through one million SHGs by the year 2003 and has successfully achieved that, **(Sundaram S. I., 2005).**

Ganesh, (2005) mentioned in a study that in Aloka district of Maharashtra an SHG formed under SGSY in record time of one and half years, all the families belonging to BPL status have uplifted to "Owner of Brick Kiln" status. Their net profit per 1000 bricks amount to ₹ 550 to ₹ 650 approximately and their turnover has increased to more than ₹ 3.5 lakh.

Microfinance programs not only give women and men access to savings and credit, but reach millions of people worldwide by bringing them together regularly in organised groups. These programs can contribute significantly to gender equality and women's empowerment. Microfinance programs contribute to women's ability to earn an income, initiating a series of virtuous spirals of economic empowerment, increased well-being for women and their families, and wider social and political empowerment (Eye on microfinance: Sustainable Microfinance for Women's Empowerment, Report on International Mutual Learning Workshop hosted by CMF, Chennai, funded by Levi Strauss Foundation, **Sept. 2006).**

Bhagwati, (2006) stated that, the micro-credit advanced through the mechanism of self help groups linked to bank credit is associated with higher level of loan recoveries and that three linkage models have facilitated socio-economic empowerment of weaker sections including women flok.

Economic empowerment is the key to all kind of empowerment, it attributes women's subordination to lack of economic power. It focuses improving women's control over material resources and strengthening women's economic security. It is realised that a women become empowered if and only if she makes herself economically empowered first. Pandit Nehru said, *'Freedom depends on economic conditions even more than political. If a women is not economically free and self-earning, she will have to depend on her husband or on someone else and dependents are never free'*. It is believed that when women are provided credit and they take up income generating activities, their income is expected to increase and household position improves (**Singh B. K., 2006)**.

Shylendra, (2007) cited that, the overall performance of the SHGs intervention of the Sadguru Water and Development Foundation (SWDF) in India and identifies possible ways to take it forward for promotting savings and credit activities. The study also stated, the SHGs have become an important instrument in the delivery of microfinance services like savings and credit for the poor.

Bhuvan, (2007) in his study about microfinance providers on SHGs of Karnataka have found significant increases in the incomes, assets creations, savings etc. as reported the hightest impact was found in Chitradurga district where the income before the involment of the NGO's was ₹ 19,863 and after the involvement income rose to ₹ 42,775. In Belgaum district, the 't' values were found to be higher signifying higher impact on the SHG members assets position. Significant impact have recorded in employment generation of the SHGs among the districts of Karnataka after starting of SHG movement. In Savings Dharwad district had the highest percentage change which amounts to about 213%. The investmment pattern of SHGs are also developed and are investing in poultry, dairy, sheep rearing, make up choulees and handicrafts. Further Chitradurga district was found to be statistically significant in the expenses towards health and education.

Sharma Borah, (2008, 09, 10) in her study in Goalpara district of Assam on Women Empowerment by SHG found sea change in the mindset of women of eightees and nintees and women of today, as economic power in concern the rural development programmes like SGSY, has motivated the women members as regards decision making, social strenghts etc. Due to lack of education, they have to depend on others for various official and accounting works and that needs proper monitoring.

An SHG is a small localised group, groomed by SHPI (self-help-Group promoting institution) and in its growth process includes an SHPI or nurtuting intermadiaries and Banks. SHGs as clients facilitate wider outreach, lower transaction costs and lower risk costs. Empowerment and confidence building of the poor and especially, poor women is a major out-come. NABARD has been playing the role of propogator and facilitator, it also initiating the credit-rating of MFIs by accerediated agencies, meeting 75 percent of the cost as grant. Thier report indicate that microfinance practicing households are spent more on education then others, there conditions improved from kuchha to pucca housing, share of consumption of loans declined from 50% to 25%; employment increased by 18% **(Singh S. , 2009).**

Dave, (2009) emphasized on the importance of savings provision of SHGs which actually enabled multifarious advantages right from minimising adverse clients selection to generating a force for strenghtening the group and enabling the poor to emerge as disciplined clients for the banking system. Apart from maintainance of proper books of SHGs it also important to have individual pass-book of clients, showing their balance of savings and loans and all member should have the knowledge of microfinance and that should not be limited to a few office bearers.

Reddy C. S., (2009) traced on his study on SHG federations, have to be evolve as a model, since its promotes sustainability of the SHGs and provides the much needed institutional base for women to realise their dreams and aspirations. It has achieve significant scale and considerable acceptance among all the major stakeholders having great potentiality for the SHG federation model to address issues of poverty. The present estimates suggest that there are more than 6000 SHGs federation. Consindering 30 percent of India's poor to be covered under the SHG programme, there will be more than 500000 SHGs in the country. If there is one SHG federation for every 25 SHGs.

Thekkekara, (2009) made an impact study of SGSY on SHGs found that, subsidy has made the programme less effective. It also shows that, fund flow to promoting agencies has to be more smooth if the programme is to be successful. He further suggested, the programme be delinked from the BPL list and that subsidies be withdrawn and selection of poor must be made by people-friendly Participatory Rural Appraisal (PRA) techniques.

Srinivasan N., (2009) in its report mentioned about the saving positions of SHGs accrossed the country, the number of SHGs that were having a savings account with the banking system had incresased from 4.16 million in 2007 to 5.01 million in

2008 and further to 5.99 million in 2009. This impressive increase of about 20 and 25 percent in the number of saving groups over a one year period indicates that there is till a lot of momentum in the programme. Up to March, 2008 the average amount of Savings, Loans disbursed and Loans outstanding was ₹ 7556; ₹ 72076 and ₹ 46884 per SHGs and outstanding loan to saving ratio was 6.2. As regard financial inclusion though SLBC[1] s declered several district as 100% financially included, but actual inclusion is not to that extent in all the districts and most of the accounts that have been opened as a part of financial inclusion drive have remained inoperative due to various reasons.

Suran, (2009) found that, approaches like SHGs and JLGs have demonstrated that tradional colleteral-free lending should not be viewed as security-free lending. In fact, it has confirmed that social colleteral is a better substitute; but the key to establishing strong social colleteral should not be forgotten. As this study suggested, four basic tenets of a good credit delivery technology are a good information-gathering system, a monitoring mechanism, an incentive system and an enforcement system.

Karmakar & Mohapatra, (2009) made a study on 'Credit Plus' Approach for Tribal Development and mentioned about 'Wadi Model' which has been found very effective in creating sustainable livelihoods for tribal families and to support similar deserving tribal families in other parts of the country, NABARD created a dedicated fund called the Tribal Development fund. The objective of the fund is to spread the message of the Wadi model of tribal development.

SHGs are playing a very active role in the process of financial inclusion and it is clear from the facts that there are 61 lakh saving linked SHGs and 42 lakh credit-linkaged SHGs as on March 31, 2009. The SHG models with bank lending to groups

1 SLBCs (State Level Bankers Committees).

of women without collateral has become an accepted part of rural finance **(Kapoor, 2010).**

Tiwari, (2010) in her study opined that, as an exemplary SHG of rural Bihar 'Jeevika', which reflect the potentiality of rural women's called the Didi- in driving the social and economic shifts. The change entails first the empowerment of the poorest women both economic and social development and the bigger threat to the success of SHGs in Bihar is the economically better off from lower castes joining the group while the poorest are left-out. This could jeopardise the group dynamics and creats a divisive structure with skewed power relation.

A central thread running throughout the microfinance industry, narrative right from its establishment in Bangladesh is that it promotes the empowerment of women. On awarding the 2006 Nobel Peace Prize to Muhammad Yunus, the Nobel Prize Committee noted that 'Micro-credit' has proved to be an important liberating force in societies where women in particular have to struggle against repressive social and economic conditions. Economic growth and political democracy can not achieve their full potential unless the female half of humanity participate on an equal footing with the male **(Bateman, 2010).**

Keshava, Mehta, & Gill, (2010) in their study mentioned that, members of Self Help Groups must start some economic activities for additional income to sustain the financial Strength of the group. The study revealed that about 37 per cent members had either started new economic activities or expanded ongoing economic affairs after joining the groups. Average monthly income obtained from new activities was ₹ 2600, while that from expansion of ongoing activities was ₹ 2857. The members of the groups deposited on an average ₹ 90/- per member per month in the groups' savings. There was continuity in saving behaviour which resulted in the average total saving of ₹ 118527/- per group. The members of these groups took an average of ₹ 48600/- as loan per year from group savings.

Loans were taken both for production and consumption purposes.

The emergence and rapid multiplication of Self-help Groups based on micro credit is a phenomenon that is gaining increaseing importance in the development scenario. SHGs are being viewed by governments and NGOs as a strategy for both women's empowerment as well as poverty reduction, **(Feroze & Chauhan,** *Microfinance in India,* **2011)**.

Availability of easy and timely credit brings with it opportunities for undertaking different new activities as well as enhanced opportunities within the sphere of activities already in continuation and this opens the possibility of increment in income and employment generation **(Feroze and Chauhan, 2011).**

Many researchers in various part of the developing world have tried to work out impact of SHGs or borrowers on Savings, income and employment of rural poor. It is observed that SHG-bank linkage programme with better access to credit lead to increase income to the SHG members. A number of studies reported that the assest holding as well as income of members have increased significantly in post-SHG situation compared to pre-SHG situation in India as well as in other parts of the world. **(Nirmala, 2006) (Feroze & Chauhan, 2011).**

Lalitha, (2011) in her study reveal that, reducing poverty and hunger are the fundamental challenges facing by developing countries and despite many efforts, around 350 million people are still living less than one dollar a day, 72% of India's poor are living in rural areas, depending primarily on agriculture and natural resources for survival. But SHG movement has taken off on a huge scale in Indian villages and has become the approach of numerous rural development projects of Indian Government and Banks. With 500 SHGs in 1992 to more than 68 lakh SHGs linked to banking system over the last 18 years and signaling rapid growth.

Chatterjee & Dar, (2011) in their study said that, Public Cooperation Scheme is one of the popular and important schemes of CAPART (Council for Advancement of People's Action and Rural Technology), by virtue of its multi-dimensional approach. The schemes involved in community in designing, planning, implementation, monitoring, evaluation and maintenance of assets created under the project. It focuses on the different disadvantaged sections of the rural community, with a view to promote and strengthen SHGs, to build their skills through training and to facilitate production of goods as well as their marketability.

Pant, (2012) in his study critically examined that, since, Independence, efforts of the Government to curb poverty and provide employment guarantee. Some succeeded; other taught us lessons with their failure. Out of the lot of such projects, the 'Livelihood Improvement Project for the Himalayas' (LIPH), which has brought several changes on the ground by empowering the locals. Launched by the central Government in 2004, this project receives financial support from the International Fund for Agricultural Development (IEFD) an active organization devoted to eliminating poverty from the world. The area of operation includes the most remote and underdeveloped districts in the state of Meghalaya and Uttarakhand. The Government involved the NGO workers with active participation and created 4,000 community based organization and SHGs in Uttarakhand and each group is essentially linked with bank and involving them in various income generating activities, like dairy, chicken-farm, shops, vegetable production etc.

Krishna Reddy, (2012) in his study found that, the income levels of the beneficiaries engaged in SHGs of Guntur District has been exceptionally increased and also developed the spirit of self-employment among them. The performances of both types of SHGs are alike and there is no significant difference among them, again the number of respondents earning below

₹ 100000 p.a. have also come-down. But, some variations as regards income performance have been reported in different blocks of the districts. The SHGs of the district are in need of care and management to develop the confidence level among the members and old aged people which are presently out of the service of SHG need to bring under the umbrella of SHG.

Microfinance sector has grown at an unprecedented pace over the last many years and has matured as an industry and is prominently placed as an effective tool to achieve financial inclusion of the poor **(Ghosh, 2012).**

The Human Rights are not equally exercise to the poor as of rich people, as its somehow related economic conditions of the masses, the bitter truth. Until economic conditions of poor are improve they will be remain deprived from their rights and as such the Grameen bank pioneer Md. Yunus said ‘micro-credit should the human rights of poor’. As only access to credit facility can improve the overall development and can aware to poor people towards their human rights, **(Debnath & Shil,2012).**

Financial inclusion is in the top priority for policymakers today to achieve inclusive growth and that cannot happen without ensuring banking services at affordable costs to the weaker sections of society who do not have any access to the formal financial system. Unless we are able to meet the credit needs of our people, we can never hope to grow in a sustainable way. Despite multiple agencies giving credit to the rural sector, the critical gap in rural credit still exists resulting in the exploitation of the rural masses by moneylenders **(Das, 2012).**

Subramanyam, (2012) in his study revealed that, out of the sample respondents, only about one tenth of the sample respondents have expanded their economic activities after joining SHGs, while nearly two thirds of the samples have no occupation before joining SHGs. As regards possession of own house, it is found that majority of the tailors, clothes business women, petty business women and half of the fish vending business women have no own house, while entire dairy business women, majority of the grocery shop business women, fancy shop business women, vegetables vending business women, petty business women and half of the fish vending business women have own house. The analysis of monthly income of the sample respondents shows that majority of the sample women are earning a monthly income ranging from ₹ 5,000/- to ₹ 10,000/-.And the study concluded that, SHG – Bank linkages is a successful step in providing access to finance to the rural needy people. The process has enabled a large number of people to engage in various income generating activities to challenge poverty.

Debnath & Shil, (2012) in it's study mentioned that, mere democracy can not bring empowerment among the women, but the microfinance services is more imperative towards women empowerment. As microfinance become a driving force of society, especially for women, towards economic empowerments, poverty alleviation and social development. Thus, empowerment will naturally come to women cluster of our society, once we able to secceed in providing income generating avenues to them, as microfinance doing.

Debnath, (2012) mentioned that, privation of exposure, women cluster of our society were ignored, their potentiality and credentials never note-of for productive utilization, thus, their qualities remain unveiled. The SHG movement of microfinance, bring an exception and has able to reach all over the world for her easy factors of financing , where women occupied the major share, as such, the entrepreneurial and other potentialities of this neglected cluster, become a case of concern. Same instance is in the Gobardhana Block, where woman's shows their potentialities of excellence in various economic activities, especially in weaving and farming. But, to have desired result, women clients of microfinance are in need of due care and attention like training, management etc.

Dutta & Phukan, (2013) carried a study on SHGs of Dhemaji Development Block of Assam and found that, the SHGs are tools to promote rural savings and gainful employment and through this, rural poverty is reduced considerbly. Therefore women members are economically independent and their contribution to household income is also increased.

Doley, Doley, & Saikia, (2013) expressed in their study, Self-help Groups are playing a major role in removing poverty in the rural india today. The group-based models of SHGs are widely practiced for rural development, poverty alleviation and empowerment of women. SHG concept is a strategy for social development place emphasis on self-reliance, aims to mobilize people, to give them voice and build people's organisations that will overcome barrier to participation and empowerment.

Sumathy, (2013) in her study on financial inclusion expressed that, our formal financial sectors is yet to meet the desired goal, but the SHG system of microfinance plays an important role, helps the poor people by means of income generating activities and gradually linked them to banks, thus leading towards financial inclusion.

Majumdar & Gupta, (2013) made a study on financial inclusion in Hooghly district of West Bengal, and come-up with some interesting findings as thier survey found 11.51% of the surveyed household were muslims and the extent of financial exclusion among them was very high at 56.39%. It also revealed that, lots of initiatives are to be taken to financially include people belonging to the schedule caste (SC) and schedule tribe (ST) categories and people with low education and income level. Again, the people belonging to the minority communities, under-priviledge castes, agricultural labourers, daily workers and persons with low education and monthly income are the most excluded.

It is also observed that microfinance models in India, despite having few weakness, shown a number of positive points such as operational simplicities, better accessibilities, wider outreaches, focus on women empowerment, wide range of credit services, non credit services and so on. Thus, microfinance models of India do offer a few lessens to takle problems of mass poverty and unemployment problem and thereby to reach the goal of financial inclusion in the country (Singha, 2014), futher, microfinance remains a potent tool for financial inclusion and development and it may not be panacea, but it has brought a sea change in lives of many, (Singha, 2013).

Deb Nath & Shil, (2013) in their study said that, microfinance is also able to brings change and empowerment among the tribal women of Gobardhana block of Barpeta district by giving access to credit, income generating sources, savings and awareness towards children health, family and involvement in family affairs, decision making have increased considerably and interest and empowerment towards politics have also increased.

Gogoi, (2013) reveal that, SHGs are playing vital role in empowering rural women of the villages and enhance the equality of status of women as participants, decision-makers, also help in removing social limitations of women such as superstition and dorment role in decision making. The SHGs are playing as a catalytic agent in the field of economic empowerment of rural women.

Francis, (2013) in its study said that, SHGs and micro-credit should be seen as one of the effective instrument for solving the present unemployment problems as well as for promoting socio economic development. Microfinance programme for women are promoted not only as a strategy for poverty alleviation but for women's empowerment as well.

As regard empowerment of women, Mukhim, (2014) opined that, our government policies should be such as to facilitate easy credit for women farmers and entrepreneurs. Economic empowerment is important because only women who earn their own income can challenge social and gender relations and bring in gender equality.

Priyadarshini, (2014) revealed that, microfinance can be a means for providing employment and generating income, particularly for women and in Indian scenario of social enterprises confirm that women are better represented them. Banking licence to Bandhan is a recognisation to the social entrepreneur and will help to provide the full-fledged banking services to the poor people.

3.8. Microfinance in Eradications of Poverty:

Microcredit has been able to bring a dignity and integrity to the fight against extreme poverty that, in the past, the different types of support to the poor were unable to do. The positive performance of microfinance programmes have allowed sustainable actions over time, capable of setting in motion worthwhile processes over and above single financial activities **(Torre).**

Hamry, (2000) in his study point out 'Micro-credit' as the best approach to entrepreneurship development and poverty alleviation both in rural and urban sectors. The credit approach helps in the development of micro entrepreneures in any economy and that add to growth and development process.

Rankin, (2001) in his study mention the importance of microcredit programmes for poverty alleviation world wide, and Nepal government has initiated the programme as a governmental strategy for rural development and insisted rural development banks and NGOs to extend loans to those, who are not bankable according to operational criteria of banks such as collaterals and incomes of the clients.

Khandker, (2001) in his study expressed about the importance of microfinance as it is the provision of loans along with other services in the rural markets and its impact at empowering poor people have become sole instrument amongst a large number of poverty alleviation strategies for policy makers.

The effective implementation of microfinance can be a means not only to alleviate poverty and empower women but also be avialable economic and financial product for financial inclusion **(Dadhich, 2001).**

Manimekani & Rajaeswari, (2002) have emphasized on the shift of agricultural activities to non-agricultural activities to cope up with the changing structure and pattern of employment. More stress has been given to push up the women SHGs in the areas where poverty persists and to do an overall development of the community along with the local economy of that area.

Solie & Ajisafe, (2003) expressed the importance of microcredit programmes and poverty alleviation strategies have become a major concern of most successive Government in many developing countries through the initiative of different poverty alienation programmes and policies towards the provision of credit to small and medium scale enterprises.

India represent a dichotomy in development as it ranked nineteenth in world industrial production and twelfth in total gross national production, yet it has a large population that is extremely poor. The United Nations Human Development Index based on three indicators-life expectancy, educational attainment and real GDP in Purchasing power parity terms, ranked India 134th among 174 countries and in terms of real GDP per capita, it ranked 141th, **(Ahuja, 2004).**

Reddy & Gupta, (2006) in their study on Credit management in SHGs under South Asia Poverty Alleviation Programme (SAPAP) revealed that, of the credit disbursed 34%, 22% and

22% of the total credit to small business, animal husbandry and agriculture respectively. Under animal husbanry, members take loan to purchase milch animals, sheep and goats, under agriculture members take crop loan to purchase, plough and bullock carts. The other major purposes include domestic consumption (i.e., 13%) and clearing of old debts (i.e., 7%) and share of health and education is only 3%. Thus, members in the sample groups have taken credit mainly (i.e., 78%) for productive/income generating activities.

Yunus & Jolis, (2007) in their popular book ‘Baker to the Poor’ share experience in working with Grameen Bank. Yunus, believe deeply and firmly that, we can create a poverty free world, if we want that, then, this conculsion was not as a product of a pious dream, but as a concrete result of experience gained in working with Grameen Bank. For him it is not microcredit alone which will end poverty and credit is one door through which people can escape from poverty.

Vyas, (2009) in his study critically examined that, poverty is characterized by vulnerability, powerlessness and dependency, as well as lack of income. Collective organisation and wealth, the capital fund and the benefits of a significant economic and social structure, both address the psychlogical consequences of being poor and help to challenge the wider structure of society and

Karmakar, (2009) in his study revealed, microfinance refers to the entire range of financial services to over-come poverty. As per RBI guideline Banks were to ensure 40 percent of total credit for priority sector, with 18 percent for agriculture and the commercialisation of agriculture with increasing emphasis on cash crops, has given breed of money lenders. The proliferation of non-banking finance companies. providing loan services in rural areas and they describe as ‘blade’ companies by the rural poor.

Reddy, (2010) suggested in his study, The RRBs should adopt innovative methods to make themselves economically viable and at the same time not compromising with outreach to the rural people and priority sectors in less developed resigns. It also suggested to reduced the number of bank branches to make individual banks econiomically viable and reach to many villages through setting up of mobile banks/ bank agents/ representatives.

Somkuwar, (2011) in his study mentioned that, the most pressing challenge before the country today is to eradicate rural poverty. A recent study by Oxford Poverty and Human Development Initiative present a distressing scenario. The magnitude of poverty in eight Indian states namely Madhya Pradesh, Chhattisgarh, Jharkhand, Uttar Pradesh, Bihar, Rajasthan, Orissa, and West Bengal has been measured higher than the most chronically affected poor nations of sub Saharan Africa. Rural India is witnessing a lot of economic interventions for improving livelihood of the poor. The National Rural Livelihood Mission (NRLM) promises to address the needs of 6.5 crore poor rural households and proposes to bring substantial changes in the lives of the rural people. The Mission further seeks to improve livelihood options by strengthening SHGs.

Deb, (2012) in its study on microfinance and poverty alleviation on RGVN-Csppromramme mention, microfinance is now evolved as a need-based policy and programme to cater to the target groups which were so far was somehow neglected whether intentionally or inadvertently i.e., women, poor, rural, deprived, etc. This is mainly based on the concern of all developing countries for empowerment of these sections and thereby alleviation of poverty and it has been proved beyond doubt that access to credit is a major input in upgrading downtrodden.

c. Problems of Sustainability associated with SHGs and with its members and Programmes.

3.9. Problems with Microfinance, SHGs Sustainability and its Programmes:

The search for a balance between sustainability objectives of MFIs and the pursuit of social aims represents a trade-off in microfinance. This contrast is inspired by two different theoretical approaches, namely the financial service Approach and poverty Lending Approach, on the basis of which microfinance is seen either as a method of diversifying the offer of financial services to financially excluded individuals, or as an instrument to support the development of the poorest sectors of the population **(Vento).**

Sebstad & Chen, (1996), Copestake, Bhaltora, & Johnson, (2001) and Mosley, (2001) are the authors made very important studies pointing-out the other sides of various microfinance programme as most of the programmers and researchers agreed that the new paradigm of microfinance programmes can increase household incomes only in particular circumstances. But its impact on poor clients remain controversial. The negative impact of the microfinance programmes has also been evaluated by several studies and emphasized that the non-uniform distribution of benefits, the fluctuating income impacts in terms of magnitude and durability, and moreover, a sizeable proportion of clients find that their post-credit incomes stagnate or fall after entering in to the programmes.

Kumaran, (1997) mentioned in his study that, passively in Self-Help Group is mainly on account of irregularity in payment of savings and employment of loans, non-adherence to norms set by the group and lack of mutual trust and confidence among members. Regular defaulting by some members resulted in dissoluation of same SHGs.

In 1984 Robert Vogel called savings "the forgotten half of rural finance". For more than 20 years Dale W. Adams, his colleagues at Ohio State University, and others have argued that there is large demand for financial savings in rural areas of developing countries and that savings is more crucial for microfinance clients than credit. Yet savings remains forgotten in much of institutional microfinance, rural and urban **(Robinson, 2001).**

Harper, (2002) in his study, revealed the weaknesses and strengths of different SHGs promoting institutions such as banks, NGOs and government agencies and suggested to put more strategies to those factors which are directly involved in promoting and financing the groups. Because, the main and pervasive microfinance programme in India is the SHG-Bank linkage programme whether adopted by government or private institutes such as NGOs, donors etc. is found to be a robust financial product.

Scheiner & Janina, (2002) in their study mentioned, the self-sustainabilty refers to the long-term ability to meet goals and in case of financial institutions and for firms, this requires private profitablity such as return on equity, net of subsidy which exceeds the private opportunity cost of resources.

Sentil & Sekar, (2004) outlines some of the acute problems with SHGs as political interference, lack of timely credit facilities, lack of adequate credit, lack of adequate women oriented schemes and delay in operation of development programmes were the major constraints perceived by the SHG members.

Joseph & Easwaran, (2006) identified the perceived constrains in the functioning of SHGs and found that lack of government attention was first and foremost problem i.e., 39%. High rate of interest was felt by 33.43% of members, followed by insufficiency of loan for income generation, inability to repay the loans etc.

Sundaram, (2007) expressed that, SHGs too are facing some problems and the poor in the rural areas are not fully aware of the concept of SHG. The loan portfolio is generally dominated by consumption loan, thus struggle to repay the loan and rise in income is just too modest. Studies shows that, the scheme is not helping the poorest of the poor and conferring benefits on the better-off sections. Moreover, there is regional imbalance in respect of growth of MFIs as of the total SHGs credit linked, Andhra Pradesh accounted for 30 percent.

Ghate, (2009) in his book in chapter-4, mentioned about the problems associated with the SHG model for its inherent features. In the Guntur survey of Spandana borrowers, two-thirds of whom were also SHG members, inadequate loan size was the most frequently cited problem in borrowing from SHGs, followed by the long waiting period for loans. In contrast, timelines of loans was cited most frequently as an advantage under MFI model.

Kashyap, (2009) in his study mentioned that, microfinance programmes across the country have shown convincingly that the poor are both prompt and reliable in repaying loans. Loans taken under these programmes have helped individual women members increase their incomes somewhat, but the micro-enterprises started by them are hardly ever sustainable in covering the running costs and generating a bit of surplus. Many practitioners have realized that credit alone is not enough to tap the economic potential of the micro-enterprise sector.

Meissner, Ramakrishna, & Haberberger, (2009) in their study mentioned that, the SHG-bank linkage programme in India today is the largest and fastest growing microfinance programme in the world. As of March, 2005, more than 1.6 million SHGs accessed credit from banks. The programme has managed to involve participation of diverse stakeholders consisting of 48 commercial banks, 196 RRBs and 316 cooperative banks. As the programme is continuously expanding its outreach, which is a very desirable feature, the expanding outreach has thrown up certain critical challenges. Quality book-keeping in the SHGs is one important challenge.

Kamdar & Gupta, (2009) mentioned in their study about some problems issue for the absence of information and a financial supply chain capable of addressing the challenge of 'last mile outreach' to service the diverse need of financial products for the under banked is one of the principal challenges to achieve financial inclusion. Techonology today provides the means to connect to this unbanked segment and weave them into the mainstream.

Sriram, (2010) exposed in his study, how microfinance become a earning or commercial vehicle, rather of helping poor, express that, the commercial model of microfinance in india with its minimalist and standardised model of landing, would grow in to bubble and run in to trouble. Many microfinance commercial organisations have entered the market in search of profits and are competting to lend the poor. In the process they have put the 'understanding' of the need of the poor aside and have started chasing target and numbers. For these institutions the poor are not seen as human beings having individual identities and needs. Instead, they are seen as data points that add-up in their profit statement. The anxiety for growth is dicteted by the fact that the investor in the market based models are impatient look for high returns and then exist.

Paul & John P, (2010) made a study on the popular delivery vehicles of micro-finance in India by doing a comparative analysis of the SHG-Bank Linkage (SBL) and Micro-Finance Institutions (MFI) models. The financial cost of borrowing was found to be much higher in the MFI model with an average effective interest rate (EIR) of 44.92 percent p.a. while the SHG loans had a more bearable average EIR of 21.56 percent p.a. They also mentioned that, for the sustainability of SHGs more micro-credit should be given, which become the major problems of sustainability.

Long been discussed as an innovation to address poverty issues, microfinance is now being viewed as the next big investment opportunity. The language of microfinance has undergone a fundamental change in the two decades of its evolution. Most of the early microfinance in India happened through donor and philanthropic funds, which were channeled to not-for-profit organizations. As the activities scaled up, microfinance moved to a commercial format **(Sriram, 2010, June-12).**

Access to commercially priced credit can have a positive effect on the welfare of low-income households. Credit can finance new equipment purchases or enable new business opportunities. It can provide better housing or help parents feed, educate, and clothe their children. In addition, it can help households and business recover from disaster. However, to provide regular access to credit, MFIs must be able to sustain their operations independently and grow to meet demand. For that, MFIs must charge an interest rate that covers their costs and risks and generates profits. These rates are high compared to banks-sometimes by a large margin. This comparatively high cost of microloans has led to questions about whether MFIs are overcharging and over-indebting the poor **(Goldberg & Pallandini, 2010).**

Northeast is the most financially excluded region in the country as the banking and financial infrastructure in the region is very weak, with Northeast lagging in almost all critical banking outreach indicators. In June 2009, average population per commercial bank branch for northeast was as high as 21,000, 40% higher than the national average of 15,000 and Manipur with the highest 33,000 population per commercial banks. The region also offers low investment opportunity which is reflected by low credit-deposit ratio. In March 2009, the C-D ratio of Northeast, as per sanctioned amount, was 35.8%, a figure less than half the country's average of 72.6%. again number of deposit accounts as a percent of the population was only 32%, with Manipur and Nagaland as lowest as 16% and 18% respectively and that of Southern region is 66%. These indicators clearly show the extent of financial exclusion in the region and the gap could not be amply filled by the MFIs too, as microfinance in the region has not strongly taken off yet. The SHG-Bank linkage has limited outreach, shows erratic growth and suffers from quality issues with high NPAs, **(Saha, 2010).**

As Noble Laureate Amrtya Sen views it, “Microfinance is like all finance. It needs to be regulated”. But that’s exactly where India is faltering. Though RBI is given the responsibility of regulating the sector, the way it is expected to function still remains in the dark; more so for the provision that talks about delegation of powers **(Patra, 2011).**

According to Joseph Stiglitz (2001 Nobel Prize winner in Economic Sciences) “Microfinance, in some parts of India, was India’s subprime”. He was perhaps referring to the incidents that had occurred in Andhra Pradesh where 30 farmers had committed suicide within a span of 45 days in 2010, after a few MFIs used coercive recovery tacties. But was the state government’s reply to the situation appropriate? With no consulting with stakeholders, the Government of Andhra Predesh issued the Andhra Pradesh Microfinance Instituitions (Regulation of Money Lending) Act, 2010, effectively shutting down all private sector operations in the State. As a result; MFIs in Andhra Pradesh, which disbursed` 50 billion in the first half of 2011, could manage to disburse only `85 million in the second half-a spine-chilling drop of 98.3%. Again, in some states, the number of microfinance loans exceed the number of poor households. So, are all those loans actually given to the poor people? Despite being considered as a critical aspect for higher financial inclusions and the country’s overall growth, Indian microfinance industry is currently running around like a headless chicken in the absence of definitive laws and dedicated regulator, **(Patra, 2011).**

The financial system of India today, encompasses a host of institutions including 75,170 branches of commercial banks, 15,612 branches of 82 RRBs, 14,000 or so cooperative bank branches, 95,626 outlets of primary Agricultural Credit Cooperative Societies, NBFCs mutual fund companies etc. yet the problem of exclusion from access to formal financial services is so acute that despite the penetrative outreach of the financial system, 50% of the country is unbanked (Report on Trend and Progress of Banking in India, 2010) and thus demands for an informal sources of finance **(Joshi, 2011).**

Lyman, (2011) in his study critically examined the reasons behind the threat of Indian microfinance sector and mentioned, though much-too much is hoped for from the Indian Microfinance Bill. But this is nothing new in the global channals of microfinance. For more than a decade stakeholders across the spectrum in countries around the world have pinned hopes on 'just the right microfinance regulation' solving problems only indirectly affected by regulatory policy. In India, no kind of regulation will miraculously rebuild the repayment culture among the of Andha Pradesh or mitigate over-indebtedness there.

Bujar Baruah, (2012) conducted a study on Impact of Microfinance, on poverty on a selected group of SHG in Nalbari District of Assam, revealed that, the amount of loan extended to the members are too small to remove the poverty and the loan amount they obtained are mainly utilized for consumption purposes. As such poor capital investment and employment opportunity were found. The study also discloses that, still the members of the SHGs go either to the moneylenders or to the banks for higher amount of loan. A large segment of the SHGs are close down and that is more in case of SHGs formed under NABARD sponsored SHG-Bank linkage programme under SGSY, as these were formed with the motive to have subsidized credit and when they found they would not get any more subsidized credit, they closed the SHGs.

Kumar L. , (2013) in her study critically examined the women empowerment issue, the study was on the impact of microfinance on women empowerment through a case study in Tamil Nadu. It was found the even though women have experienced an increase in income and consumption, they have very little control over resources, assets and do not participate equally in major household decisions. However, they have significant influence on the choices that their children make. The research finds that the real bottlenecks are the hierarchical nature of society, the lack of entrepreneurial talent and risk-taking ability in those women.

3.10. Development Perspective of Microfinance (the future of Microfinance):

Charitonenko & Rahman, (2002) in their report mentioned that, microfinance industry has begun to change significantly in recent years. But, the outreach of the industry remains well below its potential in the Asia and Pacific region. If the full potential of microfinance for poverty reduction is to be realised, it is essential to expand its outreach substantially.

Dasgupta, (2009) made an advance study for further development of microfinance industry and said, "in these days of information technology and financial reforms, taking banking services to the door-steps of the poor is need of the hour, rather then more rural branches". On the issue of interest rates, it says the poor should not be burden by usurious rate of interest. This, however, does not mean they should be only asked to pay a cheritable rate of interest but require access to hassle-free, collateral-less and demand based credit at the appropriate times.

A new idea has emerged in the field of microfinance to promote the use of microfinance services as tools which can channel human efforts in meeting their needs through the use of new environment-friendly activities. The concept that have emerged in the microfinance sector include a triple bottom line of

Profit, People and Planet, defined around the objectives of maintaining financial viability while advancing the social interest of the stakeholders and protecting the environment; and green microfinance which integrates the principles of environmental sustainability in all its operations and promotes environmentally sound practices. Green microfinance is a fast-growing phenomenon, which has been drawing incresaed attention from the microfinance community in the past few years **(Dutta & Upadhyaya, 2013).**

3.11. Conclusion:

To sum up, the reviews on the studies of the distinguished scholars focus on various aspect, of performance evaluation of microfinance under SHG models, under the headings and sub-headings in this chapter, mentionably, performance in various countries of the world, performance in India and Assam, performance on the flow of microfinance under SHG models as regard covering poor people, SHG formed, loans disbursed, loans outstanding, savings etc. are found positive but with mixed results and outcomes. And variations have also been found in the literatures on the performance according to the nature of models (i.e., SHG model-I, II & III) across the country, but it is mostly dominated by SHG model-II in our country.

Again, the performance of SHG models on the developmental parameters is also found with improvement and with growth perspective, though not-yet reached to the mark. But performance under the SHG models in extending microfinance services are positively impacted on the chosen parameters of this study, those are namely on Loaning performance, Loan re-payment performance, Income generation activities performance, Income generation performance, Savings performance, Financial inclusion performance, women empowerment performance etc. in our country and that have been revealed and established from the available literature.

Further, the impressive performance of microfinance especially under SHG models are is not free from meeting problems and limitations, (though SHG models become the only dominating model in India) of the SHGs and of its members in our country. The problems of inadequate loan, untimely payment of credit, access to finance, management of groups, records keeping of groups etc. remain stand as bottlenecks towards the performance and development of microfinance sector. Thus, the reviews established about the importance of SHG models of microfinance and its performance on the various aspects of development especially for the poor, deprived and women of our country.

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Design of the Study

Chapter - 4

Design of the Study

4.1. Introduction:

In design of the study the details procedure followed for this study has been given to highlight the structure of the study. The design of the study plays an important role as it provides the systematic research procedure which will be helpful to attained at the objective of the study, and also known as the methodology of the study. Thus, the deigns of this study began with the statement of the problems, where the thrust for this study has been mentioned, followed by objectives, research questions and hypotheses of this study, further, the details data collection methodology and data sources both of primary and secondary data have been mentioned very lucidly for acceptability.

4.2. Statement of the Problem and need of the study:

The 'Microfinance' movement was formally launched in India by NABARD in 1991-92 by linking SHGs to banks. The programme has been extended to Commercial Banks, Regional Rural Banks (RRBs) and Co-operative Banks for its ground level implementation and these intermediaries playing vital role in mobilizing funds to needy persons as well as to micro entrepreneurs (Sundaram, 2007).

As on March 31st 2012, loans outstanding against 43.54 lakh SHGs were ₹ 36340 crore and amount of loans disbursed during 2011-12 to 11.48 lakh SHGs were ₹ 16534.77 crore. So, what has started as a pilot project has now become a 'movement'.

The number of SHGs linked to banks has increased from just 500 in 1991-92 to 79.60 lakh by 2011-12, (NABARD, 2012).

The Saving performance of the SHG is considerable and can be witnessed form the following table:-

Table-4.1. Savings of SHGs in the banks as on 31st March 2012.

Name of the Agency	No. of SHGs	Amount of Savings million (₹)	Average amount of Savings per SHG (₹)
Commercial banks	4618086	415298.04	8993
RRBs	2127368	130013.93	6111
Co-operative banks	1214895	109829.49	9040
Total	7960349	655141.46	8230

Source: Status of Microfinance in India 2011-12, NABARD, P- 35.

Microfinance practice in India has much to offer to the rural population, these basically includes: financial sustainability, poverty alleviation, livelihood promotion, developing the local economy, gender empowerment, building organizations and changing wider systems and institutions within the society and that has depicted from the savings performance. The average savings per group vary widely across the states and a comparison to average savings with mainstream states in 2011-12 reveals that, the range was between ₹ 5,694 in Chhattisgarh to ₹ 12,283 in Uttrakhand(NABARD, 2012), the Andhra Pradesh (AP), Maharastra, Gujarat and Tamil Nadu showed high average savings, while Assam, West-Bengal (WB), Rajasthan and Bihar showed low average savings. However, the SHG growth rate is spectacular; especially in some states in other regions such as West-Bengal, Orissa, Uttar Pradesh (UP), Uttarakhand and Assam. Again, if we consider the regional share of the

SHG, loan disbursed, loan outstanding and client outreach of microfinance in the southern region continues to lead with highest performance and the North-Eastern region, on the other hand is least progressed region. Its overall scenario in the country can be studied from the following table.

Table-4.2. Regional shares in linkage of SHG, Loans Disbursed and Outstanding Loans as on 31st March, 2012.

Region	SHGs linked on 31.03.12.		Bank Loans Outstanding on 31.03.12.		Bank Loans Disbursed during 2011-12.	
	No. of groups	% share	Amount (₹ in Lakh)	% share	Amount (₹ in Lakh)	% share
Northern region	409326	5.14	33543.20	2.03	117827.53	3.24
North Eastern Region	366718	4.61	45128.74	2.73	99326.83	2.73
Eastern Region	1625714	20.42	162406.15	9.82	462979.84	12.74
Central Region	812767	10.21	70936.83	4.29	278029.13	7.65
Western Region	1062087	13.34	75285.69	4.55	136378.30	3.75
Southern Region	3683737	46.28	1266176.27	76.58	2539458.56	69.89
All India	7960349	100	1653476.88	100	3634000.18	100

Source: Status of Microfinance in India 2011-12, NABARD, P- 37-39.

Again, another table has been presented here to depict the state wise performance of the SHGs, in terms of average savings, loans disbursed and loans outstanding as follows:

Table-4.3. State-wise Averages Saving, Loans Disbursed and Loans outstanding per SHG as on 31.03.2012.

States (North Eastern Region)	Average Savings (₹)	Average loan Disburse (₹)	Average Loans Outstanding (₹)
Arunachal Pradesh	2226	121508	80645
Assam	3560	66925	53495
Manipur	1726	65560	39610
Meghalaya	2943	70799	54287
Mizoram	11513	120035	167997
Nagaland	3,497	72075	65036
Sikkim	4924	106995	47180
Tripura	9929	121614	100571

Source: Status of Microfinance in India 2011-12, NABARD, P- 37-39.

The average amount of savings, loans disbursed and loans outstanding of SHGs in Assam are moderate with other state of the region and country and these indicate otherwise to know the reality about the performance of 'SHG Models' of microfinance. Because, microfinance services in India are mainly providing through SHG Models i.e., under SHG Model-I, Model-II and Model-III and existing facts and figures showed unequal and disproportionate service of microfinance[1] in the country under its popular and dominating models (i.e., SHG Models), thus, recorded a healthy gap of services. Again, almost 70 percent of the rural poor of our country do not have bank account, and 87 percent do not have access to credit from a formal source. On the other hand, the practitioners generally agree that, microfinance has improved the lives of the poor. But, the recent controversy in Andhra Pradesh shows that the performance of microfinance needs to be more rigorously documented in order to convince policy makers and regulators that the movement should be supported (Ghate, 2009). That highlights the other side of microfinance and gives rise to the questions of microfinance service. The performance study is one of the best ways through which the success and failure or performance can be well measured and accordingly good policy decision can be taken or modifications in the existing system can also be made if needed and possible.

Thus, the above facts and figures give rise to a number of important questions:

1. What is the performance of SHG models of microfinance particularly in Barpeta district of Assam?
2. To what extent the SHG models of microfinance have been able to meet the needs of microfinance in Barpeta district of Assam?
3. What is the impact of SHG models on different parameters of growth and development, including income generation, in Barpeta district of Assam?
4. What are the problems associated with, for the sustainability of SHGs and to the followers in the studied area?

The researcher has undertaken Barpeta District of Assam for this study. Assam is one of the important states among the 8 states of the North-Eastern region, because the out of total population of the region, three-fourth belongs only to the state of Assam. The state is rich in natural resources, has good business deal (called Hub of business), tea, water, forest, etc. are some of the other available resources. The total population of the state is 31,169,272 and the rural population of the same is 2, 67,80,516, which is, 85.92 percent of the total population are living in rural areas, (Census 2011). The study area,Barpeta District, is one of the important districts of Assam; it attained the status of a district in 1983 headed by the Deputy Commissioner. Total population of the district is 1,693,190 comprising of 8 67,891 male and 825,299 female (Census, 2011). The district is having 11 Blocks and ranks fourth in population size among the districts in Assam.

As of now, no study particularly on the performance of SHG models of microfinance has been made in Barpeta District, (although, few studies have been made in the neighbouring districts viz. in Baska, Nalbari, Kokrajhar, Goalpara Districts, on some topics, like, Informal Microfinance in Assam, Microfinance and Women Empowerment, Microfinance and Self-help Groups, Self-help Groups and Women Empowerment, Women and Self-Employment etc.), so a study on the SHG Models of Microfinance in Barpeta District will hopefully prove to be greatly beneficial. The study made modest effort to find out the answers to the above mentioned questions.

4.3. Objectives of the Study:

i. To analyze the magnitude and trend of microfinance especially under SHG models in Assam, in general, and to evaluate the same in Barpeta District of Assam, in particular.

ii. To evaluate the performance of SHG models of microfinance on selected parameters, including income generation, in Barpeta district of Assam.

iii. To identify the problems associated with SHGs in Barpeta district of Assam.

4.4. Scope and Limitations of the study:

The study is a descriptive one and it has covered a period of five years from 2007-08 to 2011-12 and based on both secondary and primary data. The study has described the performance of the said period only and for the performance of microfinance and its policy implementation; the study has highlighted the scenario of its performance in Assam, in general, and in Barpeta district, in particular.

To assess the actual performance of microfinance (i.e., performance study) about the various policy measures taken by Govt. and other intermediaries for the targeted people by their microfinance service, the study has covered the entire Barpeta District of Assam.

The microfinance services to the SHGs promoted and nurtured under the Blocks, under ASOMI, under BANDHAN and under RGVN of Barpeta district, only have been considered while evaluating the performance of the same. The other intermediaries (registered or unregistered) which engaged in microfinance transaction, and the clients handle by them are beyond the scope of this study.

Further, to know the gaps and other problems associated with the SHG Models of microfinance the study has covered and considered those parameters of growth and development of society within the Barpeta District only. The beneficiaries' views, organizers' opinion, etc. have also been considered keeping note of limited geographical area.

From the available literature and sizable numbers of empirical studies it is found that, microfinance, now a global phenomenon and a very wide area of research, that no single study can cover its different related dimensions. The present study has been focused exclusively on the performance evaluation of SHG Models of microfinance, on some chosen parameters of growth and development which includes, SHG formation and participation in SHG, members reached, income generating activities, income generation of SHG, Savings, Savings provisions of SHG and members, loaning performance, loan repayment performance, financial inclusion, Women Empowerment etc. within the area of study.

Other factors related to the performance study will remain outside of this study. Again, those parameters of performance study may be affected by some other elements voluntarily and may cause change and development, with the changes of time or by Govt. facilities, etc., but the present study has been confined to the performance study of microfinance only under SHG models in Barpeta District during the period of study.

It is to be mentioned here that, the result of the present study may be different from other districts. In the same way, the result of the performance study in the other part of the country may differ from the present study.

4.5. Research Questions:

To achieve the undertaken objectives of the study, following research questions were taken into consideration and attempt has been made to properly address and answer all these in the study:

1. What is the performance of SHG models of microfinance particularly in Barpeta district of Assam?
2. To what extent the SHG models of microfinance have been able to meet the needs of microfinance in Barpeta district of Assam?
3. What is the impact of SHG models on different parameters of growth and development, including income generation, in Barpeta district of Assam?
4. What are the problems associated with, for the sustainability of SHGs and to the followers in the study area?

4.6. Hypotheses of the Study

To achieve the undertaken objectives of the study, following hypotheses were taken into consideration and have tested all these in this study:

1. There is no significant difference in amount of loan obtained by SHGs of Barpeta District from the State (Assam) average amount of loan obtained by SHGs.
2. The Income generation of SHGs of Barpeta District does not differ significantly from the State (Assam) monthly average income generated by SHGs.
3. The monthly Average savings by the SHGs in Barpeta District does not differ significantly from the State (Assam) average monthly savings of SHGs.
4. There is no significant difference between loan obtained by SHGs and loan demanded by SHGs in Barpeta District.

4.7. Methodology of the Study:-

The study is a Descriptive one and relied on both secondary and primary data. For this study, we have selected Barpeta district purposively for having good microfinance base and healthy numbers of SHGs in the district among the lower Assam districts. In population size the district is ranked fourth in Assam and more than 86 percent is rural population and they extensively pursue and engage in microfinance programmes, more-over, all the leading MFIs service exist in the district, further, no such study has been conducted on the performance evaluation of SHG models and the researcher also belongs to the same district. The Secondary Data have been collected from the reliable sources like NABARD, RBI, SBI, RRBs, CMF (Centre of Micro-finance, web-site), DRDA, Barpeta District web-sites, Development Block Offices and from the selected Branches of ASOMI, Bandhan, RGVN of Barpeta District. Regarding the area study, and for the collection of primary data the following points have been taken into consideration.

i. Area of the Study[2] :

History of Barpeta District:

The Barpeta district is situated at the plains of Brahmaputra Valley and Northern part of the district is covered by hilly area. In the Southern and Western sides of the district, char areas are created by Brahmaputra and by Beki River, which comprise a major part of the district. Barpeta district is one of the administrative districts of Assam. Barpeta district was carved out of erstwhile Kamrup district of Assam in July 1983. The district derived its name from the head-quarter town of Barpeta. It is created as a civil sub-division in 1841 by the British administration; John Batlor was the first administrative officer of erstwhile civil sub-division. Today the district consists of two civil sub-divisions, (i) Barpeta and (ii) Bajali. The Barpeta district covers an area of 3245 sq. k.m. Barpeta is popularly known as the Land of Satras as a renowned reformer **SrimantaSankar Deva** with his disciples, came to district in the 16th Century.

Geographical Location of the District:

This lower Assam District is bounded by international Border of Bhutan in the North, Kamrup and Goalpara Districts in the South, Nalbari District in the East, Bongaigoan and Goalpara Districts in the West. The Barpeta district extends from 26 degree 5 minutes north to 26 degrees 49 minutes north latitude and 90 degrees 39 minutes east to 91 degree 17 minutes east longitude.

Population in the District:

The District is having 11 Blocks named as Bajali, Barpeta, Bhawanipur, Chakchaka, Chenga, Gobardhana, Gomaphulbari,

2 Sources: Information from Wikipedia about the district, Barpeta District web-site, web-site of office of the chief executive officer: Barpeta ZilaParishad, Barpeta, link: http://barpetazp.com/barpeta.htm

Mandia, Pakabetbari, Rupsi and Sarukhetri Development blocks. As per census 2011, the total population in the district is 1,693,190 (i.e., 5.43 percent of total population of Assam) of which male 8,67,891 and female 8,25,299 with extensive rural population, that near to 86 percent. The sex ratio is 1000:951 and population density is 632 per sq. km. The literacy rate is 65.03 percent and that of male 70.72 percent and of female 59.04 percent.

Figure-4.1: Map of Barpeta District:

Source:http://barpetazp.com/barpeta.htm

Administrative Structure of the District:

There are nine Revenue Circles in the district viz., Barpeta, Baghbar, Sarthebari, Barnagar, Kalgachia, Bajali, sarupeta, Chenga and Jalah. There are 26 Moujas in the district viz., Barpeta, Betbari, Nagaon, Chenga, Ghilazari, Jania, mandia, Bagribari, Gobardhana, KharijaBijni, Howly, Titapani, Damka Chaka Bausi, Rupsi, Baghbar, Paka, Sarukhetri, Pub Bajali, Sariha, Uttar Bajali, Chapaguri, Kohlabari, Manikpur, Bhabanipur, Hathinapur and Bijni. There are 129 nos. of GaonPanchayat in the district. Northern part of the district is covered by hilly area and in the southern part and western side of the district, char areas are created by Brahmaputra and by Beki rivers which comprises a major part of the district.

Soil, Season and Climate in the District:

The soil of Barpeta district may be classified as sandy, sandy loamy and forest soil. Barpeta district enjoys tropical monsoon climate having two distinct seasons- summer and winter. The summer from March to May is followed by the Monsoon from June to September. The retreating Monsoon occurs from October to November. The winter season from December to February is characterized by average temperatures remaining generally above 12 to 8 degree Celsius. The average rainfall ranges from 360 to 400 cm.

Flora and Fauna in the District:

The district is rich in flora and fauna. Manas National park, a world heritage site, with a prominent tiger project, an Elephant Reserve and a biosphere too situated at a distance of 52 k.m. towards North West from Barpeta town is ornamented with rare and diversified wildlife. Manas, a tributary of the river Brahmaputra passes through this national park giving in its name. This park was dedicated to the nation in the year 1928. There are 543 species of plants, 60 species of mammals, 312 species of birds, 42 species of reptiles, 7 species of amphibian, 54 species fishes and 100 species of insects in the park. There is also a reserve forest at Deodhara at a distance of 60 k.m. towards north from Barpeta town covering an area of 74,561 hectares. The mighty river Brahmaputra flows from East to west across the southern most border of the district. The tributaries of river Brahmaputra, Beki, Manas, Nakhanda, Chaulkhowa, Pahumara, Palla, Kaldia, etc. flow across the district.

Agricultural Pattern in the District:

The district of Barpeta is one of the leading agricultural districts of Assam. Although the total gross cropped area in Barpeta district is 3,10,000 hectares, the net cropped area is only 1,76,900 hectares. The cropping intensity is 175% and integrated area is 45,192 hectares. The district has 1,86,205 nos. of farm families out of which, 19,798 nos. are big farm families, 6,543 nos. are marginal farm families, 18,582 nos. are small farm families and 22,394 nos. are landless families. The main crops grown in the district are paddy, wheat, mustard seed, jute, potato, pulses, fruits, vegetables, etc. the land distribution for cropping is: i) Paddy- 1,90,875 hectares; ii) Oil Seed- 29,435 hectares; iii) Pulses-13,238 hectares; iv) Fruits- 8,335 hectares; v) Vegetables- 27,706 hectares; vi) Wheat- 14,575 hectares; vii) Potato- 9,850 hectares; viii) Jute- 7,840 hectares.

ii. Period of the study:

The study has covered a period of 5 years from 2007-08 to 2011-12. Though microfinance movement was formally launched by NABARD in 1991-92 by linking Self-help groups (SHGs) with banks in India, but from the initial investigation and pilot survey made in the district during the period found that, microfinance programme under SHG Models started its functions in Barpeta District from year 2000, when the SGSY scheme was launched. The progress was very marginal up to 2005 and thereafter and due to the involvement of various intermediaries (MFIs, NGOs etc.) in this field, a noticeable growth has been observed from 2005-06 onwards. So, the study for the period from 2007-08 to 2011-12 (i.e., for five years), seems to be more beneficial for evaluating the performance under the SHG Models in Barpeta District of Assam.

iii. Fixation of Sample and Methodology of Data Collection:

Since, it is a sample based study, hence, a total of 260 sample SHGs have been taken for the purpose of data collection which is determined by using the software "MACORR Sample Size Calculator" (version 2000) developed by American Research Group Inc., at 95% confidence level and 6% confidence interval, for a population of 8,392 "active" SHGs of the District. (The total number of SHGs in the district is 15,477 out of which 8,392 are active, on 31.03.2012).

Primary Data have been collected during May-June, 2013, and in Oct.-Nov. 2013, through a Schedule from the SHGs president and secretary in presence of other members of the groups on the meeting days of SHG. Data & information have also been collected by another Schedule from the officer in-charge of intermediaries, viz., Blocks, ASOMI, Bandhan and RGVN Branches in Barpeta District.

Barpeta District of Assam was purposively chosen for the study and that owing to the reason, the district is ranked fourth in *te*rms of population size among all the districts of Assam, about 86 percent are rural population and they extensively follow microfinance programme. Among the lower Assam districts, Barpeta District is having a healthy number of SHGs, further no such studies on the performance evaluation of SHG Models have been made in the district so far, besides, the researcher also belongs to the same district.

As the SHGs under the supervision of the Blocks of Barpeta District, ASOMI, BANDHAN and RGVN only have been considered for this study and accordingly the primary data has been collected from SHGs of above mentioned intermediaries in following manner:

First of all, the entire district is stratified according to the Development Blocks, Branches of ASOMI, Bandhan and RGVN. There are 11 Development Blocks, 3 Branches of ASOMI, 3 Branches of Bandhan and 1 Branch of RGVN (i.e., the Branches ≥ 5 years as on 31.03.2012) have been considered for this study as intermediaries of SHGs in Barpeta District. Thus, accumulate 18 numbers of strata in the district. Then, total SHGs of each stratum has been taken and their selection to the Sample SHGs (i.e., 260 SHGs) has been made in the following manners:

Calculations: Total SHGs of Barpeta District (15,447) → Active SHGs (8,392) → Active SHGs ≥ 5yrs (as on 31.03.2012, i.e., 6,932 SHGs) → Proportion to Sample → Randomly Selected by Lottery Methods = No. of SHGs Surveyed (i.e., Sample of 260 SHGs). The detail calculations are as follows:

Table-4.4.Calculation of Sample of the Study:

@	S L . No.	Names of Blocks of Barpeta Dist.	Total SHG.	Status of SHG		Active SHGs ≥5yrs	Proportion of SHG to Sample	%, of Total (i.e.260 SHG) Sample.
				Defunct	Active			
	1.	Barpeta	1248	636	612	**546**	**20**	**7.69**
	2.	Chenga	1233	396	837	**592**	**22**	**8.46**
	3.	GumaPhulbari	1045	330	715	**544**	**20**	**7.69**
B	4.	Sarukhetri	1421	212	1209	**1146**	***42**	**16.15**
L	5.	Mandia	2019	1291	728	**631**	**24**	**9.23**
O	6.	Gobardhana	327	145	182	**193**	**07**	**2.69**
C	7.	PakaBetbari	1122	920	202	**183**	**07**	**2.69**
K	8.	Bhabanipur	1858	1326	532	**412**	**15**	**5.77**
S	9.	Chakchaka	924	706	198	**198**	**07**	**2.69**
	10.	Rupshi	1143	395	708	**494**	**18**	**6.92**
	11.	Bajali	1551	546	1005	**974**	**36**	**13.85**
		A. TOTAL	13891	6903	6928	**5913**	****218**	**83.83**
A S O	12.	Barpeta Road Branch	336	41	295	**194**	**07**	**2.69**
M	13.	Sarbhog Branch	245	08	237	**138**	**05**	**1.92**
I.	14.	Chenga Branch	288	30	258	**187**	**07**	**2.69**
		B. TOTAL	869	79	790	**519**	**19**	**7.30**

Methodology of Primary Data Collection from ASOMI: There are five branches of ASOMI in Barpeta District, but only three branches have completed more than five years period in providing microfinance services under SHG Models and only those SHGs completed five years period have been consider for this study and their primary data collection methodology has been given in table-4.4. The other two branches having less than five years period in Barpeta district are: ASOMI Patacharkuchi and Baniakuchi.

BANDHAN.	15.	Barpeta Road-(Branch-I).	234	17	217	**165**	**6**	**2.31**
	16.	Barpeta Road-(Branch-II).	205	06	199	**141**	**5**	**1.92**
	17.	VellaNawgaon Branch	273	20	253	**183**	**7**	**2.69**
C. TOTAL			712	43	669	**489**	**18**	**6.92**
RGVN.	18.	Sarthebari& Bahari	05	00	05	**05**	**05**	**1.92**
D. TOTAL:			05	00	05	**05**	**05**	**1.92**
G. TOTAL (A+B+C+D)			15477	7025	8392	**6926**	**260**	**#100**

Source: Records of Block Offices & DRDA; collected and complied from the records of ASOMI, Bandhan Branches of Barpeta District; RGVN (mf Ltd.) H.O. Guwahati; Branches of RGVN of Sarthebari&Bahari.

Methodology of Primary Data Collection from BANDHAN: There are 16 Branches of Bandhan in Barpeta District, but only three branches have completed more than five years period in providing microfinance services under SHG Models in the district and only those SHGs completed five years period have been considered for this study and their primary data collection methodology is given in table-1.4. The names of other Bandhan Branches having less than five years period in Barpeta District are: Howly (2); Barpeta (2); Mandia (1), Sarupeta (1); Kalgachia (1); Barpeta Road (1, Total Branches 3); Sarthebari (1); Nittananda (1); Pathsala (1); Kayakuchi (1); Sorbhog (1). (Figures in the brackets indicating the numbers of branches).

Methodology of Primary Data Collection from RGVN: RGVN has stopped forming new SHGs from 2010 in Barpeta District and the SHGs formed earlier are mostly converted into JLG of four members. Only Five SHGs have been found active with more than 5years of age in Sarthebari and Bahari areas and all those five SHGs have been surveyed for the purpose of this study.

Notes:

- @ Selected intermediaries of Barpeta District of Assam, following SHG Models for Microfinance service in the district.
- * The figure is not exactly proportionate, the actual proportion is 43 but due to the needs for adjustment one SHG has been reduced.
- ** The actual proportionate SHG comes to 222 unit, but to cope with the total sample size of the study, the total sample number has been reduced to 218 SHGs and adjustment of 4 SHGs have made by excluding the fractions.
- # the total actual percentage comes to 99.97%, which is equivalent to 100%, the difference caused for the fractions of calculations.
- The problems of adjustments has been arise due to the SHGs of RGVN, where only five active SHGs are found and all those five SHGs have been taken in to consideration for this study and that creates the above discrimination and necessary adjustment has been made on the basis of best judgment.

The collected data and information (both from Primary and Secondary sources) have been processed, tabulated and analyzed in later chapters using appropriate statistical tools and diagrams, viz., growth rate, trend, percentage, ratio, correlation, line-chart, bar and pie diagrams, etc. In this study, we have taken four hypotheses, particularly for the second objective and test of hypotheses have been done to nullify the hypotheses using Z-test for single mean and Z-test for compare means.

Microfinance under SHG Models in India and in Assam

Chapter - 5

Microfinance under SHG Models in India and in Assam

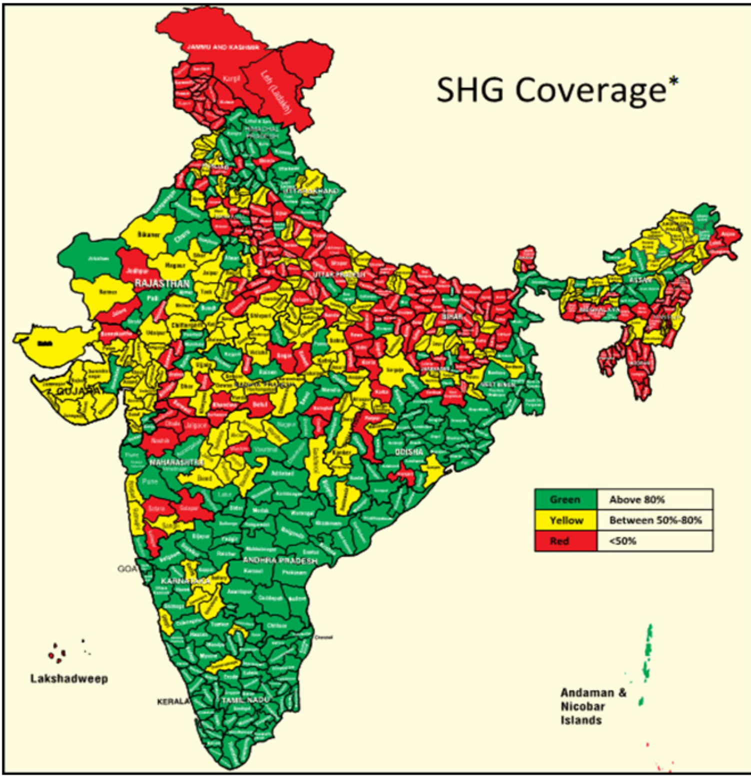
5.1. Introduction:

The growing evidence of microfinance performance and success stories in the World established microfinance activities to a new level for its socialistic motives of helping the poor people, despite having its commercialisation aspects. It is only microfinance and no other system of finance, which proved effective and sustainable mostly for the deprived, women and ignored sections of people of our society, in either formal or informal system of financial service history. Microfinance is the sense of small scale financial products and services for unbanked, poor and deprived section of the society, residing in rural and semi-urban areas and in urban slums. It is the source of loans, savings and other basic financial services for the poor (CGAP), (Khanka, 2010). In India, microfinance sector made remarkable progresses over the years in terms of huge clients reached, loan disbursed and outstanding, refinancing, savings, giving access to income generation, scope to self-employment, empowerment and also in linking to banking services by its SHG-Bank linkage programme, thus, paving the way for financial inclusions (Das, 2012). Its magic performance and flow of credit to the needy borrowers made microfinance a household name and also for the result of benefits accrued by the poor from its services (Srinivasan, 2009). If we look back to the performance of flow of microfinance and other services from now to its formal starting under the initiative of NABARD in 1992, then it seems that, it has given tremendous results. The initiative taken in 1992 to make the traditional and formal banks to extend financial services to deprived sections through informal Self Help Groups (SHGs), has now blossomed into a “monolith” microfinance initiative. The same has been recognised as a decentralised, cost effective and fastest growing microfinance initiative in the world, enabling over 103 million poor households’ access to variety a of sustainable financial services from the banking system by becoming members of nearly 8 million SHGs (NABARD, 2012).

Microfinance services under its various programmes have emerged over the past two decades as the important tools for economic development and the empowerment of the world’s poor who are economically active but financially constrained and vulnerable in various countries with an acute aim of poverty alleviation (Dutta & Upadhaya, 2013). While in the first decade of the programmes the task was experimenting the potential of SHGs and its system to organise people towards savings, extending loans among the group members and to work in group spirit to serve as social collateral to provide loan, the second decade laid emphasis on establishing the reliability of the models across the regions. The movement of linking of SHGs to bank of only 500 SHGs in 1992 had grown over 0.5 million SHGs by March 2002 and further to 8 million SHGs by March 2012. Together 8 million SHGs of the poor maintain a balance of over ₹ 6550 crore in the Savings bank accounts with the Banks. Over 4.4 million SHGs are regularly availing credit facilities from the Banks. During 2011-12 alone, over 1.15 million Groups availed loans amounting to ₹16535 crore from Banks and together 4.4 million Groups having loans to the extent of ₹ 36340 crore as outstanding against them with the financing banks as on 31st March, 2012. Under the SHG-Bank linkage programme, over 103 million rural households have now access to regular savings through 7.96 million SHGs linked to banks and about 27% of these SHGs are savings linked through the SGSY programme-the rural poverty programme of GOI (Government of India). Interestingly, bulk of their savings is used for internal lending which is over 70% and only the balance is kept to the banks. Over 79% of SHGs linked to banks are exclusively women groups, the most distinguishing features of microfinance sector in our country.

Further, over 4.36 million SHGs have now access to direct credit facilities from the banks and total bank loans outstanding against these groups is over ₹ 36340 crore by March, 2012 with an average of ₹ 83,500 per group. About 1.15 million SHGs were extended fresh loans to the extent of ₹ 16535 crore during 2011-12 by all banks and averaging ₹ 1, 44,000 per group with a growth rate of 13.7% over the last year (NABARD, 2012). But it is to be mentioned here that, the services of microfinance in terms of flow of credit, clients reached, etc. are not uniformly spread over in the country and disparities are found and following diagram has been presented to understand the geographical spread of SHG-Bank linkage programme in India as on 31st March, 2012.

Figure - 5.1. Geographical Spread and Penetration of SHGs in India, 2012-13.



Source: Status of Microfinance in India 2012-13, PDF Report-NABARD, link: http://indiamicrofinance.com/status-microfinance-india-2012-2013-pdf-report-nabard.html.

So, the programme is unequally spread over in the country as depicted in the above map, further, it is obvious from the same that, geographical reach of the programme is moderately spread in the North-East Region (NER), leaving Manipur and Nagaland and a bit highly spread over in the state of Tripura and Mizoram. The NER of India possess an interesting case for the study of Indian microfinance, the unusual topography, low population, low level of commercialisation and infrastructure, transport, communication and power bottlenecks have restricted the reach and spread of financial services. As a result, formal microfinance initiatives began lately from the rest of the country (Das D.). The loan received in 2011-12 accounts for only 2.73 percent of the total loans received in India. By the end of March, 2012, the total amount of loan disbursed in the NER was only ₹ 45128.74 lakh, of which 42 percent was in Assam; Tripura accounted for 51.28 percent, and no other state received more than 5 percent(NABARD, 2012).

5.2. Microfinance in Assam:

Assam is one of the relatively backward states of our country, characterized by low per-capita income, poor rate of capital formation, slow growth of state income, in-adequate infrastructure facilities, geographical isolation and communication bottleneck, inadequate exploitation of natural resources, poverty, etc. though very rich in natural resources (Roy). As per 2011 (provisional) census report, population of Assam is 31.2 million, which is 2.6 percent of the country's total population and 86 percent is rural population. Assam is still one of the industrially backward states and remains predominantly an agrarian economy where 53 percent of total population depends on agriculture and allied activities (Statistical Hand Book of Assam, 2006). Capital deficiency is another serious problem for Assam, thus, why Assam is under-developed. As the per capita income in Assam is very poor, the savings potential is also low, but the marginal propensity to consume of the people of Assam is very high on account of sub-standard living conditions of the majority of the population. Thus, despite of having huge developmental potential, the State's economy cannot develop due to lack of capital formation (Sarmah, 2010).

Credit facility, which is an important factor for development is also very poor in Assam, the per capita bank credits in Assam stood at ₹ 667 in 1995 as against ₹ 2285 for all India. The credit deposit ratio in Assam stood at 23.5 in 1970 as against 55.9 of India and, in 2006; the credit deposit ratio in Assam was 42.4 percent as against 72.5 percent for all India. Further, in 2011, the credit deposit ratio in Assam was 35.6 as against 75.1 for all India, (Quarterly Statistics on Deposits and Credit of Schedule Commercial Banks, March 2007 to March 2011). Thus, the lending policy of the commercial banks is far from generous for the poor of the State of Assam. Thus, in the absence of large scale credit facilities, industries in the private sector cannot grow satisfactorily. The above facts about Assam's economy are presented to depict the credit gap from formal sector and the acute need for alternative sources of formal or informal financial service just to cater the growing needs of finance in Assam.

Farmers in Assam are facing a chronic problem of lack of adequate financial facilities from the very beginning and they have been depending on village money lenders, who charge a very high rate of interest (Dhar, 2009) (Das, Dutta, Kakoti, & Deka, 2011). Thus, as an informal source of finance for the poor, micro-credit also existed in Assam and the poor people borrowed mainly consumption loan from those money lenders or Mahajans (i.e., Capitalist) for their emergency needs (Baruah, 2012). Hence, micro-credit was the sibling of today's microfinance in Assam as well and that gradually developed and converted into today's microfinance and the details about its reasons has already been mentioned in the introductory chapter of this book.

So, from a long time the provision of micro-credit existed in Assam, especially in the villages and was used by the farmers and the poor people as a source of finance, instead of having many difficulties. Thus, exact date of microfinance cannot be taken into account, but, from 1992, function of microfinance started with a new concept and strategy in the whole country as well as in Assam and thus was the beginning of microfinance in a bold-way in the State. NABARD launched the Self Help Group (SHG)-bank linkage programme in 1992 in Assam (Dhar, 2009). The SHG-bank linkage is thrift based programme, which offers provisions of thrift, credit and other financial services of small amount, basically for the poor people. The available literature indicate that, the SHG-bank linkage programme has emerged as an alternative source of credit for the rural people of Assam and also enables the members to engage in income generating activities. NABARD has devised region-specific strategies and interventions and accordingly, special focus is being given on the NER. The programme has not progressed in Assam at the same pace as that in the rest of the country for the reason of lack of awareness among farmers, the uncertain law and other situation and apprehension of bankers regarding recovery of loans, etc. The SHG movement in southern states of India has been successful to a great degree in uplifting the socio-economic conditions of the down-trodden, which can also be achieved in Assam, if adequate encouragement and help is provided to them (Roy). However, a silent revolution of empowering the downtrodden, more particularly the women, to live a better life is going on in Assam. The concept of SHGs as a changing agent has come quite late in Assam as compared to other parts of the country. It has received tremendous response especially among the rural women and that is being proved, as by March, 2002; there were only 18,005 SHGs throughout the state, of which 10,849 SHGs were women groups. During 2004-05, 20528 SHGs have been credit linked with bank loan of ₹ 7732.24 lakh and NABARD has sanctioned grant assistance of 76.70 lakh to 26 NGOs and ₹ 10.95 lakh to three constituents of Assam GraminVikash Bank viz., PragjyotishGaolia Bank, SubansiriGaolia Bank and LakhimiGaolia Bank, for the promotion of SHGs in Assam (Executive Summary, Part-I: An Overview of State Focus Paper, 2006-07). Again, according to Nanda Talukdar Foundation study, upper Assam has been benefited more from the state government initiative even though the actual intention was to benefit lower Assam (Roy). But the programme has gather momentum from the year 2001-02 onwards and by the end of March, 2012, a total of 276565 SHGs have been bank linked and out of that, 218763 are only women groups in Assam and of the total SHGs, 145821 SHGs were credit linked, (NABARD, 2012).

The Assam regional office of NABARD has played a vital role by providing financial assistance of ₹ 416.06 lakh to 119 NGO-SHPI[1] projects for promotion and credit linkage of SHGs and by 31st Oct. 2011, a total of 16409 SHGs are credit linked in Assam as against ₹ 358.06 lakh grants assistance provided to 119 NGOs for the promotion of 14259 SHGs up to 31st Oct. 2010. To facilitate and to establish socially committed NGO's to access higher quantum of credit from the banking system for meeting the demand of credit, two Microfinance Institutions (MFIs), ASOMI and RGVN, have been sanctioned an amount of ₹ 100 lakh each towards capital support by NABARD (Economic Survey, Assam, 2011-12). Again, in areas where the NGOs and Bank network is weak, a scheme for assisting Individual Rural Volunteers (IRVs) for the promotion and linkage of SHGs was introduced and the scheme is currently implemented through the RRBs and SBI in Assam. NABARD has sanctioned an assistance of ₹ 135.18 lakh to utilise the services of 751 IRVs in all the 27 districts of Assam for promotion and credit linkage of 7510 SHGs with banks. Swarnajayanti Gram SwarojgarYojana (SGSY) is the mother programme of poverty alleviation programmes and by March, 2011, 1.94 lakh SHGs have been covered under the ambit of bank credit in Assam, out of which, 1,02,166 SHGs have been covered only by SGSY programme.

North Eastern Development Finance Corporation Ltd. (NEDFi) is also playing an active role in microfinance service in NER by

1 NGO-SHPIsare the Non-government Self-help Groups Promotional Institution, who is engaged for the management and promotion and credit linkage of SHG for their active and sustainable performance.

implementing its microfinance schemes, which is instrumental for financial inclusion, and is supporting the NGOs for on lending to the needy borrowers (i.e., preferably to SHGs and to individual borrowers) and by March, 2011, the corporation has succeeded in reaching-out 159983 beneficiaries, of which 83% are women in the NER through 421 NGOs/MFIs. In Assam, total cumulative sanctions and disbursements of loans figures are over ₹ 80 crore and ₹ 77 crore respectively.

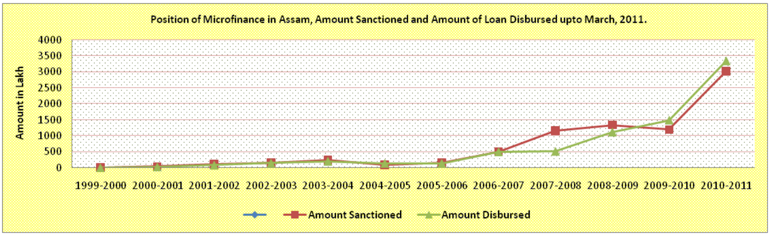
Table - 5.1: Summary of Amount Sanctioned and Amount Disbursed under Microfinance in ASSAM: (Upto March, 2011)

(Amount ₹ in Lakh)

Particulars	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Total
Amount Sanctioned (₹)	3	40	119	154	243	93	150	501	1170	1344	1196	3031	8025
Amount Disbursed (₹)	3	26	82	145	204	140	140	499	515	1120	1490	3346	7710
% Loan Disbursed	100	65	68.91	94.16	83.95	150.54	93.33	99.60	44.02	83.33	124.58	110.39	96.07

Source: Annual Report - 2011-12, NEDFi.

Figure-5.2. Magnitude and Trend of Microfinance in Assam in terms of Amount of Loans Sanctioned and Amount Disbursed:



Source: Annual Report, 2011-12, NEDFi.

Some important factors that can drive the growth of microfinance sector in Assam are mentioned below. Again, Assam is the only leader State (followed by Tripura) in NER in the performance of microfinance under SHG models in terms of SHG formation, Savings, Loaning, reaching to beneficiaries, etc. and that is owing to the following important reasons:

- Assam is the hub for all major commercial and non-commercial activities in the NER, which gives it an edge over other states, moreover all important offices are also located in the state.

- Assam is already having a number of MFIs and some of the big MFIs are RGVN, ASOMI, Bandhan, etc. Thus, microfinance has already begun in the state and there is no need to start from scratch. (Saha, 2010).

Microfinance sector in Assam is growing rapidly and much can be expected from it. It will benefit the rural people, especially women and deprived of formal financial system, in meeting their credit needs and other financial services to strengthen their economic condition. The Chief Minister of Assam, Mr Tarun Gogoi in an interview said, his government has given importance to this sector for its magic performance in the world with the poor people and after recognising success story of Bangladesh, further mentioned, he had already talked with Md. Yunus, the Grameen Bank pioneer, for suggestion for further effective implementation of the microfinance programme in our state. He is interested to implement the programme especially in insurgency affected area to cope the young brains in income generating and self-employment avenues and hopefully that will help to mitigate the growing problems of insurgency in the state (Tribune, 2007)(Devi, 2012).

5.3. Programmes/Schemes for Microfinance Services in Assam:

Microfinance becomes an effective and sustainable means of finance for the poor, especially for the rural poor and women, as for them there was no financial assistance/mechanism in our huge formal financial networks, only due to their inability to produce guarantees or collateral to enjoy the financial service, mainly the loan/credit facilities. The working spirit, skills, labour potentialities, etc. of the poor people were never been softly recognised and credit worthiness was the only condition to avail the credit facility for them. But, the success story of Grameen Bank of Bangladesh channelized the thoughts about poor people, including women, to a new way and now it is believed that poor are 'credit worthy'; they are not in need of charity rather, needs more exposure and easy access to credit (Yunus & Jolis, 2007). To spread the services of microfinance for the benefits of needy people and to achieve other greater objectives like poverty alleviation, financial inclusion, rural development, self-employment, economic empowerment, women empowerment etc. the apex authorities introduce some policy measures to accomplish those specific objectives. Those policy measures or initiatives taken to extend the service of microfinance to the targeted people, popularly known as, microfinance schemes or programmes.

Again, 86 percent of total population of Assam are living in rural areas and most of them are with poor living conditions and such situation barely demand for various schemes which can be used for their development and also for the development of the rural Assam. Aiming the same and from the sixth five year plan onwards, various self-employment generation programmes have been implemented in Assam as in other parts of the country. Brief interpretations of some of the popular schemes/ programmes which directly or indirectly contributed and helped to extend Microfinance Services in Assam are mentioned below:

i. **Integrated Rural Development Programme (IRDP):** The IRDP was launched in the state in 2nd Oct. 1980 and seek to promote self-employment by developing productive assets and providing inputs to the rural poor through a mix of subsidy and bank credit and by integrating multiplicity of agencies and programmes. The main objective of the programme is to provide financial assistance to the identified rural poor families for taking up income generating activities in the primary, secondary and tertiary sector of the rural economy and the programme was implemented in 50:50 financial assistance of the central and state government. The programme implemented through District Rural Development Agencies (DRDA) at the district level. Thus the basic objective of IRDP was to promote self-employment of the poor households along with transfer of productive assets, so that they can earn income sufficient to cross the poverty line. The number of families assisted by IRDP in Assam in 1991-92 was 46,416 with the amount of credit disbursed ₹ 19.74 crore. The beneficiaries during 1998-99 included 11,477 small farmers, 18040 marginal farmers, 11,145 agricultural labourers and 6,602 rural artisans with the credit disbursement of ₹ 39.64 crore and subsidy amounted to ₹ 22.84 crore (Dhar, 2009).

ii. **Development of Women and Children in Rural Areas (DWCRA):** The programme on DWCRA was introduced in the year 1982-83 on Pilot Project basis. The objective of the programme is to provide women members of rural families below poverty line with opportunity of self-employment on a sustained basis. Under this scheme income generating activities are taken up by formation of group of 10-15 women having same economic background. In 1995-96, a total of 856 groups of women were formed in Assam and of which 635 groups were engaged in economic activities with financial assistance of ₹ 193.38 lakh. During 1998-99 a total of 2868 groups were formed in Assam with the financial expenditure of ₹ 423.61 lakh (Dhar, 2009).

iii. **Training of Rural Youth for Self-employment (TRYSEM):** The National Scheme of training of Rural Youth for Self-employment is a programme for generating self-employment opportunities by imparting training to the rural youth in various trades and skills. In Assam the scheme has been in operation since 1979-80 as a supporting component of IRDP. During the year 1998-99, under this programme a total of 6,714 numbers of youth were trained in various trades and vocations with the financial allocation of ₹ 271.79 lakh (Dhar, 2009).

iv. **Swarnjayanti Gram SwarozgarYojana (SGSY):** The SGSY is the major programme for the self-employment of rural poor of our country. The programme came into effect from 01.04.1999, after review and restructuring of earlier programmes like IRDP, TRYSEM, DWCRA, Supply of Toolkits in Rural Areas (SITRA) and Ganga KalyanYojana (GKY), besides Million Wells Scheme (MWS) and those earlier programmes were not in operation after the introduction of the SGSY (SGSY, 2010). This a holistic programme covering all aspects of Self-employment, such as organization of the rural poor into Self-help Groups (SHGs) and their capacity building, selection of key activities, planning of activity cluster, training, credit, marketing support, etc. The scheme is funded by the central and state Govt. at the ratio of 75:25. The objective of the scheme is to assist the rural poor families (Swarozgaries) to come above poverty line, by providing them income generating assets through Bank loan and Government subsidy. The DRDAs at the district level are the sole authority for implementation of the programme (Dhar, 2009). By March, 2012, a total of 21.23 lakh SHGs are linked with the total amount of savings amounted to ₹ 1395.25 crore as against of 16.94 lakh SHGs with amount of savings was ₹ 1292.62 crore by 31st March, 2010, under SGSY scheme and loan disbursed during 2011-12, amounted to ₹ 2643.56 crore to 2.10 lakh SHGs and balance of outstanding loan up to 31st March, 2012, amounted to ₹ 8054.83 crore with 12.16 lakh SHGs under SGSY scheme in India (NABARD, 2012), (Srinivasan, 2009), (Gogoi, 2013).

v. **Special SGSY:** This programme is also functional since 1999-2000 in the form of 'Golden thread' for the development of the indigenous Eri and Muga industry in Assam, in eight selected districts namely Goalpara, Dhubri, Kamrup, Lakhimpur, Dhemaji, Kokrajhar, Karbi-Anglong and Golaghat. During 2001-2002 an amount of ₹ 333.34 lakh was spent and 2219 numbers of Swarozgaries were assisted as against 2462 Swarozgaries with an expenditure of ₹ 63.22 lakh in 2000-2001, (Dhar, 2009).

vi. **National Rural Livelihood Mission (NRLM)[2] :** The National Rural Livelihood Mission (NRLM) was established in June 2010 by the Government of India, to be implemented in all States of the country to establish efficient and sustainable institutions of the rural poor for enabling them to increase

2 Compiled from Procurement Manual of National Rural Livelihoods Project, Ministry of Rural Development, Government of India. Retrieved from, http://rural.nic.in/sites/downloads/latest/NRLM%20Procurement%20Manual.pdf

household income. NRLM mainly encompasses four inter-related tasks: (a) mobilizing all rural, poor households into effective self-help groups (SHGs) and SHG federations; (b) enhancing access to credit and other financial, technical, and marketing services; (c) building capacities and skills for gainful and sustainable livelihoods; and (d) improving the delivery of social and economic support services to poor. Under NRLM, Government of India is availing a credit from the International Development Association (IDA) for implementing the National Rural Livelihood Project (NRLP) to broadly support the following components: (i) Institution and human capacity development at the National, State, District and Sub-District level, (ii) State Livelihood Support towards establishment of institutional platforms of the rural poor for improved access to financial, livelihood and public services, (iii) Innovation and Partnership to identify and partner innovative ideas which address the livelihood needs of the rural poor, (iv) Project management and monitoring and learning systems.

Under NRLM, federated structures of Self Help Groups (SHGs) will be formed at different levels (village, block, district) for undertaking value chain linked activities in dairy, agri-business and similar enterprises for better production, storage, marketing, etc. of the produce of the members of the SHGs. These groups would undertake procurement of goods, works and services in line with the selected value added activity (NRLM). The Programme is also known as "Aajeevika", (Gogoi, 2013).

vii. **Chief Minister's Microfinance Scheme[3] :** This scheme is for extending microfinance services only in the state of Assam and the major thrust of the scheme is "Financial inclusion". As despite having the vast expansion of the

3 Compiled from the broachers of Chief Minister's Micro Finance Scheme "KhudraReen", (means Small Loan) implemented by Assam Financial Corporation, Paltan Bazar, Guwahati. Retrieved from http://www.afconline.gov.in/document/broucher.pdf and http://www.afconline.gov.in/pdf/mfnbbrochure English.pdf

formal financial system in the country, credit facilities have not adequately covered the need of small loan of our people at the grass root level. The Chief Minister's Micro Finance Scheme (CMMFS), 'KhudraReen' is a special initiative taken-up by the Govt. of Assam to expand micro credit activities in the State by making available micro credit to Self-help Groups (SHGs)/ Joint Liability Groups (JLGs) through NBFCs, Sec-25 Companies / Registered Cooperative Thrift & Credit Societies at cheaper rate of interest. The objective of the scheme is to encourage the practice of informal savings and credit and help to inculcate the habit of borrowing and repayment amongst the small and mid-sized agriculturists, self-employed persons and entrepreneurs in the rural as well as urban areas of Assam. This would enable their productive participation in the development of the State, (Chief Minister's Micro Finance Scheme-Assam Financial Corporation (CMMFS) "Khudra Reen") (Chief Minister's Micro Finance Schemes- Assam Financial Corporation).

So, above mentioned are the popular microfinance programmes/ schemes implemented in Assam from time to time to extend the service of microfinance especially to the rural poor. Apart from these schemes/programmes, some other activity based micro-credit services are also provided and are in operation in many parts of Assam which are benefiting the poor people. The microfinance intermediaries, NGOs, MFIs, etc. have also developed some need based programmes according to the suitability of local conditions and beneficiaries demand like Entrepreneurship Loan, Individual Loan for Shops, Farming Loan, etc. to provide microfinance service.

ASOMI, one of the leading MFIs of Assam, has its own scheme for Self-Employment of the rural people and it provides loan for (i) Agricultural Activities (ii) Dairy Framing (iii) Piggery Farming (iv) Weaving and Ari polo (v) Cane & Bamboo Industry

(vi) Ready-made Garments Industry. 'Operation Rainbow' is another bold step of ASOMI, the objective of this mission is to bring 'White Revolution' by milk production, 'Blue Revolution' by fish production, 'Green Revolution' and 'Yellow Revolution' by agricultural production, etc. (Bharali, 2010).

Similarly, RGVN is also offering individual programme for microfinance services, the Credit and Savings Programme, RGVN-CSP programme of RGVN was initiated to provide credit and other financial services to the people who are unable to access the formal sector, and poor women empowerment is their main criteria, though the programme started in 1995, but it is after 2005, the RGVN-CPS geared up their services and are basically operating in twelve districts in Assam. Another programme known as Entrepreneurship Development Programme (EDP) which is now modified as Entrepreneurship Development Loans (ENL), provide credit facility to undertake entrepreneurial activity as self-employment (Deb, 2012). CSP delivers credit via two broad delivery modes, such as Group Lending Model and Individual Lending Model. Under Group Lending Model, poor women & men are provided credit through Self Help Groups (SHGs) and Joint Liability Groups (JLGs). On the other hand, Entrepreneurship Development Loan (EDL) comes under Individual Lending Model (Borbora & Sarma).

Further, Bandhan's microfinance programme includes 'Micro Loan Product' for the poor women, 'Micro Enterprise Programme' offers bigger loan to women who want to expand their business, 'Ultra Poor Programme' (Chartering into Untenured Frontier: Targeting the Hard Core Poor) for the need of women belongs to the poorest of the poor community, (Vikash, 2008), Microfinance and Health Protection (MAHP) Initiative, etc. (Bandhan).

5.4. Operating Models of Microfinance in Assam:

The concept of microfinance involves informal and flexible approach for the credit needs of poor. It is equally important to provide the services of microfinance, primarily 'micro-credit' to the beneficiaries in an effective manner to reap the maximum benefits for both the lenders and borrowers and also for the sustainability of the both. Thus, microfinance services are provide applying various methodologies as suitable with local conditions, borrower's demands and others factors and those microfinance service methodologies are established as Models of microfinance (Shodhganga). In Assam also, according to the needs and capacity of the borrowers and other local conditions, some models are in operation for lending micro-credit to the beneficiaries and some are home grown models of Assam. The models, which are popularly in operation, are mentioned below:

i) Self-help Group (SHG) Models: it comprises three credit linkage models viz., SHG Model-I, SHG Model-II and SHG Model-III.

ii) Joint Liability Group (JLG) Model;

iii) Microfinance Institution (MFI) Model;

iv) Individual Lending Model;

v) Partnership Model;

vi) Business Correspondent and Business Facilitators Model:

So, the models mentioned above are developed at the national level taking help or example from many countries, like from Bangladesh for SHG Models, JLG Model, etc. and discussion about these models have been given in Chapter-1. Apart from the above mentioned models, RGVN have developed certain need based micro-credit delivery mechanism, slightly different and efficient to meet the needs of the borrowers of Assam. Those programmes are-

vii) Entrepreneurship Development Program (EDP)[4] *: Under this method, SHG or JLG loanee members who have good credit records from last three months or those who have attained a certain level to absorb more credit and shown entrepreneurial ability by virtue of their work are availed credit facility and the amount of loan varies from ₹ 15,000 to ₹ 40,000.

viii) JLG Cluster Loan/ SHG Preliminary*: In this model, the individuals who are earning a very low income in urban, rural and semi urban groups are targeted, i.e., small vegetable sellers, fast food vendors, bangle sellers, rickshaw pullers, etc. The maximum loan amount approved is ₹ 2,000 and the rate of interest charged is as low as 7% p.a.

ix) Micro Enterprise Loan*: Under this system, the targeted customer is different; they are the educated men and women, who are unemployed, with visible entrepreneurial ability. The loan amount is higher and that ranges from ₹ 25,000 to ₹ 50,000. Interest rate is same as JLG Cluster loan but administrative cost is 5% in this case.

Whatever be the system, methods or methodology used to extend microfinance services, but their ultimate motive is to extend the benefits of micro-credit to the grass-root level people, who are mostly deprived from formal financial system and are in need of financial support to improve their economic condition, living standard, poverty condition and to develop their empowerment level. In Barpeta District of Assam, all the models of microfinance mentioned above are more or less functional, but it is mainly dominated by SHG models, as such, many rural people of the district understand SHG is a synonym of microfinance and SHG is the only way out to get loans from the intermediaries. So, there is lack of awareness

4 *these are the RGVN's special system of microfinance delivery programme designed and developed according to the needs and suitability of the borrower of the locality and these information have been collected from the article written by B. Deb, on Microfinance and Poverty Alleviation: A case study on Rgvn-Csp, published in India Journal of Applied Research, Vol. 2, Issue: 3, December, 2012.

among the people in the district, which came to light during the field survey. Again, HDFC and Axis Banks in the district stated partnership model microfinance recently with some NGOs and extending microfinance service by forming groups in the locality area of NGOs.

5.5. Various Intermediaries of Microfinance in Assam:

The success of microfinance programmes depends to a greater extent on its service delivery mechanism, support system and management from the intermediaries who deal in microfinance. To spread the service of micro finance in the state, both government and non-government departments and organisations have been working for a long time and facilitating the service of small loan, i.e., micro-credit, savings and partially other banking services. Those departments and organisations which are in operation are known as ‘intermediaries’ of microfinance and they are involve in many types of activities like selection of beneficiaries, formation of groups, promotion of groups, nurturing, training, financial assistance, etc. In the apex level of the state, some organisations which are contributing to the development of microfinance are SIDBI, NABARD, and NEDNi. They are the pioneer in promoting microfinance service in Assam by providing finance, support system to NGOs and MFIs for on lending the service to the beneficiaries (Sharma, 2011). The government agencies like DRDA and its supporting office like Municipality Boards, Town Committees, and Block Offices, etc. are the supporting and implementing agencies at every town, blocks and village levels of the microfinance programmes, popularly the IRDP, SGSY and then NRLM etc.

Microfinance becomes a sustainable alternative strategy among the developing countries to cover its poor and hard-core poor and to save them from the grave of poverty (Sundaram, 2007). Thus, many policy initiatives followed by various programmes and schemes are being introduced from time to time to reach the poor people to eradicate their vulnerable conditions, by assisting financial service which is the life-blood for their all-around development. But, providing this service only by government agencies is not sufficient to cover the huge segment of people demands, and in Assam, where 86 percent is (Census, 2011) rural population, it seems as an impossible task to meet such target. As such, the service of microfinance are also providing through NGOs, MFIs etc. for speedy coverage and distribution of the benefits, and all those Agencies, Departments, NGOs, MFIs etc. are the intermediaries of microfinance. NGOs are playing a significant role in the empowerment of disadvantages women, helping them stand on their own, through various socio-economic programmes(Mathaw & Verghese, 2011), vocational training and other similar programmes. NGO's intervene the needs of the women, contribute to their socio-economic empowerment, health awareness and general sensitization, such as, education, employment etc. (Asif, 2011). And their role ranges from fulfilling the basic necessity of women to empowering them and lead to the development of their families (Chatterjee & Dar, 2011). Literature suggests that, NGO interventions positively contribute to women empowerment (Lalitha, 2011). In Assam also, there are some home grown NGOs/MFIs along with outside organisations which deal in microfinance. A list of those NGOs/ MFIs operating in Assam is given below:

i) RGVN (NE) Microfinance Ltd.

ii) ASOMI (Asomi Finance Pvt. Ltd.).

iii) Bandhan (originally an NGO registered under West Bengal Societies Act. But from April, 2014 it obtained the banking license from RBI and now it's a Bank).

iv) Prochesta;

v) Sanchays;

vi) Namghar and Pujaghar;

vii) Aasha;

viii Ujjivan;

ix) Youth Volunteer's Union (YVU);

x) Volunteers for Village Development (VVD);

These are the organisations popularly working as NGOs or MFIs in different parts of Assam and some of them are also performing in outside of the state in microfinance and helping in the selection, formation, promotion, nurturing, training of SHGs and more importantly, linking those SHGs and beneficiaries with the Banks, thus moving forward the rural masses towards financial inclusion. Their performance is faster and in some cases NGOs are found more active in dealing with people then GO (Government Organisation) (Desai, 2005) and recognising their performance, more importance has been given to these organisations and the areas, where formal organisation and banking services are poor, microfinance services are extended involving local NGOs/MFIs, also known as SHG bank linkage programme through NGOs/MFIs, i.e., falls under SHG Model-III. Though, a good numbers of NGOs/MFIs are existing in Assam, but the microfinance service are popularly dominated by only three of such organisation, viz., RGVN, ASOMI and Bandhan in the state and as well in some neighbouring states.

Apart from those leading microfinance intermediaries in Assam, many small organisations are also found active in almost every district of Assam and popularly working in their respective districts and within their limited areas and provides microfinance service. Interestingly, some of the organisation are also accepting deposits from the people and availing credit facilities as well. They follow the simple procedure of granting loan and make daily, weekly or otherwise collection and most of them are running their service out of their own funds. As in Barpeta district some of such organisations are: Shibam Socio-Economic

Development Society, Jyoti Finance, Trupati Finance, Anchalik Gram UnnayonParishad etc. Similarly, a number of NGOs are also working in the neighbouring Nalbari district areas and are concerned with the formation and nurturing of SHGs, namely, Weavers Development Society (WDS); GramyaVikash Mancha (GVM); DREAMS (Baruah, 2012), AASHA (All Assam Socio economic Health association); PITCCOSS (Pioneer Thrift & Credit Co-operative Service Society Ltd.); Jivan-Jyoti Silpa Samabay Samiti Ltd.; Pragjyotika; MaaLaxmi Economic Development Society etc. VITAL (Socio-Economic Development Society); ORAITHA Economic Development Fund etc. are in Baksa district of Assam (Das D.). In recent year, some Private Sector Banks, viz., Axis Bank, HDFC Bank, have also started functioning in Barpeta district in collaboration with some NGOs to provide microfinance by forming SHGs and otherwise.

5.6. Magnitude and Trend of Microfinance under SHG Models in the Period Study:

Microfinance has received considerable attention among the researchers, policy makers and financial service providers and is also considered as a powerful instrument for achieving financial inclusion, alleviation of poverty, enabling the rural poor to increase their income opportunities and reduce economic vulnerability (Ghosh, 2012). The Self-Help Group (SHG) - Bank linkage programme, implemented by NABARD since 1992, has become the only dominated model of microfinance in India in terms of both numbers of borrowers, bank loans disbursed and loans outstanding, savings, etc. Further, to cope with the growing demand and need for microfinance in the country the system of linking of SHGs have been changed and designed for implementing through the GOs as well as NGOs/MFIs etc. thus, under SHG Models we have three credit linkage models in India which are named as SHG Model-I, SHG Model-II and SHG Model-III. Microfinance through SHGs has reached such a position in India, that, it is acknowledged as the biggest microfinance programme in the world. The progress of SHG-Bank linkage programme in India was slow up to 1999 as only 32,995 groups were credit linked during the period 1992 to 1999 and since then the programme is growing rapidly (Shodhganga). The researcher made an effort to present the magnitude and trend of microfinance in the study period from 2007-08 to 2011-12, i.e., for five years under the SHG Models, and to attain the same, necessary calculations, discussions have been made with the help of tables and diagrams. Again, this part of the study has been sub-divided in to the following heads to cover the entire issue of the magnitude and trend of microfinance generally in India and Assam, more clearly and elaborately, thus sub-divided into:

- Position in India;
- Position in Assam;

5.7. Position in India:

Microfinance under SHG-Bank linkage programme has reached to over 10.3 crore rural households and have access to regular savings through 79.6 lakh SHGs linked to banks by March, 2012, and 27 % of these SHGs are savings linked through SGSY programme, the rural poverty alleviation programme of government of India. The Small beginning of linking only 500 SHGs to Banks in 1992 had grown to over 5 lakh SHGs by March 2002 and further to 79.60 lakh SHGs by March 2012 in India and the share of southern States are highest in the total number of SHGs linked, which stands to 46%, while the share of North-East States remain small and stands only 4.61% by March, 2012, the lowest among all the regions. The overall progress under SHG-Bank linkage programme covering three SHG models are given in the following table.

Table-5.2: Progress of Microfinance under SHG-Bank Linkage Models[5] in India, from 2007-08 to 2011-12. (Amount ₹ in Crore)

5 The progress under the SHG-Bank linkage Models are comprises the data under SHG Model-I & Model-II, where banks are directly finance to the SHGs in both the models and the other SHG Model-III, where SHGs are finance and linked through NGO/MFIs are given in next Table-5.3.

Particulars		2008-09		2007-08		2009-10		2010-11		2011-12	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31st March	Total SHGs	5009794 (16.95%)	3785.39 (6.94%)	6121147 (22.18%)	5545.62 (46.50 %)	6953250 (13.6%	6198.71 (11.8%)	7462000 (7.3%)	7016.30 (13.2%)	7960000 (6.7%)	6551.41 (-6.7%)
	All-women SHGs	3793920 (12.6%)	2545.14 (19.8%)	4864000 (22.0%)	4434.03 (42.6%)	5310000 (9.18%)	4498.66 (1.46%)	6098000 (14.8%)	5298.65 (17.8%)	62.99 (3.3%)	5104.33 (-3.7%)
	% of Women SHGs	75.73	67.24	79.5	80	76.4	72.6	81.7	75.5	79.1	77.9
Loans Disbursed to SHGs during the year	Total SHGs	1227770 (18.9%)	8849.26 (23.4%)	1610000 (31.1%)	12253.51 (38.5%)	1587000 (-1.4%)	14453.3 (17.9%)	1196000 (-24.6%)	14547.73 (0.01%)	1148000 (-4.0%)	16534.77 (13.7%)
	All-women SHGs	935086 (20.3%)	6232.21 (32.4%)	1375000 (32.0%)	10527.38 (40.8%)	1294000 (5.8%)	12429.37 (18.1%)	1017000 (-21.4%)	12622.33 (1.6%)	923000 (-9.2%)	14132.02 (12.0%)
	% of Women SHGs	76.16	70.43	85.4	85.9	81.6	86.0	85.0	86.8	80.4	85.5
Loans Outstanding against SHGs as on 31st March.	Total SHGs	3527040 (12.6%)	15104.78 (23.4%)	4224000 (16.5%)	22679.84 (33.4%)	4851000 (14.8%)	28038.28 (23.6%)	4787000 (-1.3%)	31221.17 (11.4%)	4354000 (-9.0%)	36340.0 (16.4%)
	All-women SHGs	2844436 (11.2%)	11261.63 (14.7%)	3277000 (13.2%)	18583.54 (39.40%)	3898000 (18.9%)	23030.36 (23.9%)	3984000 (2.2%)	26123.75 (13.4%)	3649000 (-8.4%)	30465.28 (16.6%)
	% of Women SHGs	80.65	74.56	77.6	81.9	80.30	82.10	83.20	83.70	83.80	83.80

Total Amount of Loan (Out-standing+ Disbursed) during the Year.	Total SHGs	4754810	23954.04 (28.35%)	5834000	34933.35 (45.83%)	6438000	42491.58 (21.64%)	5983000	45768.9 (7.72%)	5502000	52874.77 (15.53%)
	All-women SHGs	3779520	17493.84	4652000	29110.92	5192000	35459.73	5001000	38746.08	4572000	44597.30
	% of Women SHGs	79.49	73.03	79.74	83.33	80.65	83.45	83.59	84.66	83.10	84.35

Source: Status of Microfinance in India-2011-12, 2010-11, 2009-10, 2008-09 of NABARD, Note: Figures in the parenthesis are the growth rates.

From the above table, progress under SHG-Bank linkage programme can be clearly understood, if we consider the SHG Savings with banks in the period of study, it has recorded a total growth of 58.89 percent with an average growth of 11.78 percent p.a. The growth rate of the same came below the average growth rate of the period and recorded to only 7.30 and 6.70 percent respectively, in 2010-11 and 2011-12. Together the 79.60 lakh SHGs maintained a balance of over ₹ 6551.41 crore in the Saving Bank accounts with the Banks up to March, 2012, with the total growth of 73.07 percent and an average growth of 14.61 percent p.a. in the period, but recorded a negative growth of 6.7 percent in 2011-12, that owing to the decline of 4754810 formation of SHG under SGSY and also for increasing awareness at the SHG level about the benefits of using the savings for internal lending/loaning.

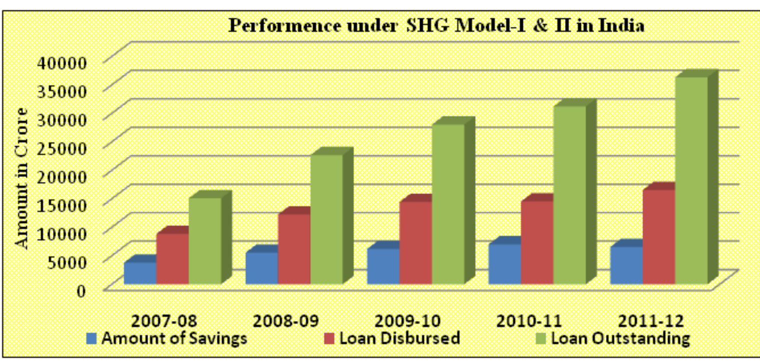
During 2011-12 alone, 11.48 lakh SHGs availed loans amounting to ₹ 16534.77 crore from Banks in India, which records a total growth of 86.85 percent from 2007-08 to 2011-12, and an average growth of 17.37 percent p.a. during the period of study. But, the growth rate of the same was almost nil in 2010-11, and it was only 0.01 percent. Again, the position of outstanding loans with SHGs reveals that, in 2007-08 outstanding amount of loans was ₹ 15104.78 crore, against 35.27 lakh SHGs, which increased to ₹ 36340 crore, with 43.53 lakh SHGs by the end of March, 2012.

Thus, total growth came to 101.69 percent in outstanding amount of loans during the period of study. As a result, the position of total loan (i.e., total of loan disbursed and loan outstanding) during 2011-12, stands to the amount of ₹

52874.77 crore, with 55.02 lakh SHGs which recorded the total growth of 120.73 percent from 2007-08 to 2011-12; and an average growth rate of 24.15 percent p.a. during the study period.So, it is seen that, the growth rate of SHG are comparatively coming down and a sharp fall occurred in loan disbursed and loan outstanding from 2008-09; it even records negative growth in 2010-11 and 2011-12 as given in the table. The trend position and performance of SHG-Bank linkage programme under SHG Model-I and Model-II, is presented with the help of following diagram.

Figure-5.3. Position of SHG Savings with Banks, Loan Disbursed and Loan Outstanding, in India, 2007-08 to 2011-12.

(Amount ₹ in Crore)



Source: Status of Microfinance in India 2011-12, 2009-10 & 2008-09, of NABARD.

Again, the areas where the banking services or branches of banks are not sufficient or banks being over work-loaded, the microfinance service in those places are provided through NGOs and MFIs and that has developed the concept of MFI-Bank linkage model (SHG Model-III), where the funding agencies/

banks etc. provide bulk loan to those organizations for on lending to the beneficiaries and SHGs. These intermediaries take care of SHGs in the formation, nurturing, promotion, training, etc. to sustaining them towards income generation by providing microfinance, mainly through SHGs. In recent years, this model has grown rapidly and their service volumes have also increased in India (Gadiapannivar). The performance under this model in India is present in the following table.

Thus, the performance of total amount of loan disbursed under this model registered a total growth of 164.21 percent and an average growth of 32.84 percent p.a. in the disbursement of loans from 2007-08 to 2011-12, but it recorded a negative

Table-5.3. Scenario under MFI-Bank linkage Model (SHG Model-III) in India, from 2007-08 to 2011-12. *(Amount₹ inCrore)*

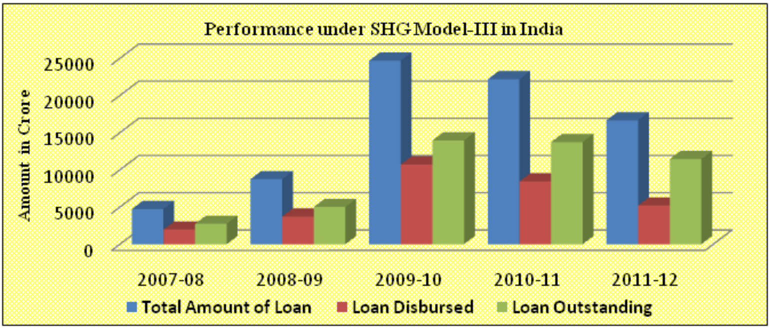
Particulars	2007-08		2008-09		2009-10		2010-11		2011-12	
	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount
Loans disbursed by banks to MFIs	518 (55.09%)	1970.15 (71.09%)	581 (12.2%)	3732.33 (89.4%)	779 (34%)	10728.50 (187.4%)	471 (-39.5%)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)
Loan outstanding against MFIs	1109 (101.64%)	2748.84 (73.49%)	1915 (72.7%)	5009.09 (82.2%)	1659 (-13.4%)	13955.75 (178.6%)	2315 (39.5%)	13730.62 (-2.0%)	1960 (-15.3%)	11450.35 (-16.6%)
Total Amount of Loan		4718.99		8741.42		24684.25		22179.58		16655.64
Growth % of Total Loans		72.48%		85.24%		182.38%		-10.15%		-24.91

Source: Status of Microfinance in India 2011-12, 2009-10 & 2008-09, of NABARD

Note: Figures in the parenthesis are the growth rates.

growth of 21.3 and 38.39 percent respectively in 2010-11 and 2011-12. Again, in case amount of loan outstanding with MFIs, the balance of that in 2007-08 was only ₹ 2748.84 crore with 1109 MFIs in India and that had reached to the amount of` ₹ 11450.35 crore with 1960 MFIs by the end of March, 2012.Further and more importantly negative growth had been registered, which stands at 32.53 percent, from 2009-10 to 2011-12 in the amount of total loans availed, but prior to that, the growth rate was positive. Again, the growth rate of MFIs, who were disbursed loans for on lending the beneficiaries, had also slightly come-down to negative in the last two financial years of the study by 39.5% and 1.3% in 2010-11 and 2011-12 respectively. In all, the performances under model-III are shrinking gradually in India and that can also be seen from the following figure, where the highest performance was recorded only in the year 2009-10, and afterwards the same passages downwards.

Figure-5.4. Position of Total Loan, Loan Disbursed and Loan Outstanding under MFI-Bank linkage (SHG Model-III) in India, 2007-08 to 2011-12. (Amount ₹ in Crore).



Source: Status of Microfinance in India 2011-12, 2009-10 & 2008-09, of NABARD.

5.7.a. SHG Model-wise Comparative Performance of Microfinance in India:

The SHG model-wise performance can be seen from the following table, where it has been depicted that, SHG-Bank linkage model (comprises model-I & II) where banks directly lends to SHG, together provided more amount of loans, than the MFI-Bank linkage (i.e., under model-III) during the period of study. Interestingly, if we consider the model-wise loan performance ratio as calculated in the following table, it is found that, the lending positions under model-III are gradually improved from 2007-08 to 2011-12, as the ratio of lending comes from 5.08:1 to 3.17:1 by the end of March, 2012, with be

A Comparative SHG Model-wise total loans performance during the period of study have been presented with help of following diagram and it depicts that, the relative performance

Table-5.4. SHG Models-wise performance of Microfinance in India, from 2007-08 to 2011-12.

(Amount ₹ in Crore)

Particulars	Under SHG Model-I & II[6]			Under SHG Model-III			Grand Total of Loans under SHG Models- I, II & III.	Model-wise Loan Performance in Ratio: X/Y
	Loan Dis-bursed	Loan Out-standing	Total Amount of Loan (X)	Loan Dis-bursed	Loan Out-standing	Total Amount of Loan (Y)		
2007-08	8849.26 (30.86%)	15104.78 (52.68%)	23954.04 (83.54%)	1970.15 (6.87%)	2748.84 (9.59%)	4718.99 (16.46%)	28673.03 (100%)	5.08:1
2008-09	12253.51 (28.06%)	22679.84 (51.93%)	34933.35 (79.99%)	3732.33 (8.55%)	5009.09 (11.47%)	8741.42 (20.01%)	43674.77 (100%)	3.99:1
2009-10	14453.3 (21.52%)	28038.28 (41.74%)	42491.58 (63.25%)	10728.50 (15.97%)	13955.75 (20.77%)	24684.25 (36.75%)	67175.83 (100%)	1.72:1
2010-11	14547.73 (21.41%)	31221.17 (45.95%)	45768.9 (67.36%)	8448.96 (12.43%)	13730.62 (20.21%)	22179.58 (32.64%)	67948.48 (100%)	2.06:1
2011-12	16534.77 (23.78%)	36340.00 (52.26%)	52874.77 (76.05%)	5205.29 (7.49%)	11450.35 (16.47%)	16655.64 (23.95%)	69530.41 (100%)	3.17:1

Source: Status of Microfinance in India 2011-12, 2009-10 & 2008-09, of NABARD.

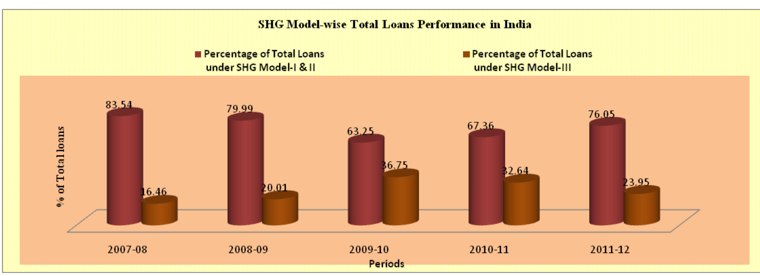
Note: Figures in the parenthesis are the percentage calculated out of the Grand total amount of loans for each year.

6 Under this head microfinance directly provided by the banks to the beneficiaries have taken, which comes under the SHG Model-I & II, as per the data in the NABARD reports and break-ups under this two models are not given in the reports. Again, from credit linkage point of view both the models are same and the only difference lies with, in model-I SHGs are form, nurture and financed directly by the banks and in model-II SHGs are form and nurture by the GOs, NGOs etc. but are directly finance by the banks in both the models.

was poor during 2007 to 2009, where the difference was almost 80:20 percent together under model-I&II and model-III, the performance of the same was improved and increased to the proportion of 63: 37 and 67: 33 percent under

model-I &II together and under model-III in 2009-10 and 20010-11, but the same again slashes to 76 : 24 percent in 2011-12. Thus, in lending the SHG model-I&II together remains in superior position and availed more amounts of loans to the beneficiaries during the period of study.

Figure-5.5.The comparative total loan positions in India during the period of study under the SHG Models:



Source: Table-5.4.

5.8. Position in Assam:

The performance under the SHG Models of microfinance in Assam is impressive in comparison to the other states of NER, but among the other regions of the country its performance and position is relatively poor, and from last a decade its relative position in terms of geographical coverage, reaching rural populations, formation of SHG, loan disbursed, loan outstanding, savings with banks, participation of NGOs/MFIs and people etc.

in microfinance have improved a lot and are further expanding. The number of SHGs having savings with banks in Assam is 276565, which is only 3.47 percent of the total SHGs of India and amount of savings stands to ₹ 9845.98 crore, which is only 1.50 percent of total savings with the banks in India by March, 2012. Assam is occupying the leading position in microfinance in the NER, as of the total SHGs having savings in banks, 75.42 percent (i.e., of the total 366718 SHGs) SHGs only belong to Assam and of the total amount of savings of NER, i.e., ₹ 15251.75 crore, 64.56 percent only belong to SHGs of Assam. During the period of study the SHGs formed under its models along with savings positions, loans disbursed and loans outstanding in total and that to exclusively all-women SHGs are presented in the following table:

Table-5.5. Pattern of Microfinance in Assam especially under SHG Models, from 2007-08 to 2011-12 (Amount ₹ in Lakh)

In Assam, the total SHGs linked to Banks up to March, 2012, is ₹ 276565 lakh, which was only 149719 SHGs by the end of March, 2008; thus, the total growth recorded in linking of SHGs to banks is 84.72 percent, and an average growth of 16.94 percent p.a. during the period of study. The accumulated amount of Savings of SHGs in different Banks with 276565 lakh SHGs is ₹ 9845.98 lakh by March, 2012 and that was only ₹ 5800.06 lakh by the end of March, 2008, which accumulated the total growth in Savings as 69.76 percent and an average growth of 13.95 percent p.a. during the study period and the growth rate of same was highest in 2011-12, which stands as 20.12 percent. An analysis about the growth of SHGs with savings and with saving amount of SHGs during the period of study are presented in the following diagram and its reveals that, during 2007-08 and 2008-09 the growth of SHGs with savings and amount of savings of the total SHGs and all-women SHGs were steady and in increasing trend, but in the later part in the period of study, i.e., 2009-10 to 2011-12, the growth rates and position have fluctuated considerably and decreased, which can be observed from the following diagram.

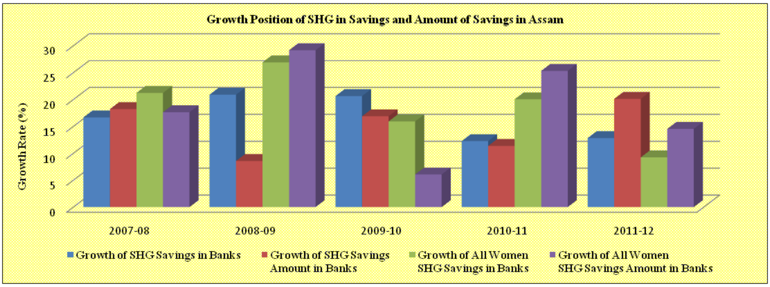
Particulars		2008-09		2007-08		2009-10		2010-11		2011-12	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31st March	Total SHGs	149719 (16.67%)	5800.06 (18.22%)	180996 (20.89%)	6296.92 (8.57%)	218352 (20.64%)	7359.94 (16.88%)	245120 (12.26%)	8196.6 (11.37%)	276565 (12.83%)	9845.98 (20.12%)
	All-women SHGs	113382 (21.23%)	3899.96 (17.64%)	143892 (26.91%))	5037.54 (29.17%)	166821 (15.93%)	200263 (20.05%)	6696.66 (25.33%)	218763 (9.24%)	218763 (9.24%)	7670.02 (14.54%)
	% of Women SHGs	75.73	67.24	79.5	80	76.4	72.6	81.7	75.5	79.1	77.9
Loans Disbursed to SHGs during the year	Total SHGs	8869.10 (23.11%)	26448 (30.17%)	15696.20 (76.98%)	39058 (47.68%)	19573.61 (24.70%))	29094 (-25.51)	22715.61 (16.05%)	28012 (-3.72%)	18746.98 (-17.47%)	18746.98 (-17.47%)
	All-women SHGs	15474 (27.56%)	6246.51 (16.13%)	22587 (45.97%)	13483.04 (115.85%)	31871 (41.10%)	16833.31 (10.51%)	24730 (-22.41%)	19717.15 (17.13%))	22522 (-8.93)	16028.67 (-18.71%)
	% of Women SHGs	76.16	70.43	85.4	85.9	81.6	86.0	85.0	86.8	80.4	85.5
Loans Outstanding against SHGs as on 31st March.	Total SHGs	75405 (8.65%)	24224.37 (21.33%)	88878 (17.87%)	32855.42 (35.60%)	100422 (12.99%)	49123.37 (49.51%)	111589 (11.12%)	51470.2 (4.78%)	117809 (5.57%)	63021.64 (22.44%)
	All-women SHGs	60814 (10.86%)	18061.69 (27.15%)	68969 (13.41%)	26908.59 (48.98%)	80639 (16.92%)	40330.29 (49.88%))	92842 (15.13%)	43080.62 (6.82%)	98724 (6.34%)	52812.13 (22.59%)
	% of Women SHGs	80.65	74.56	77.6	81.9	80.30	82.10	83.20	83.70	83.80	83.80

Total Amount of Loan (Out-standing+ Disbursed) during the Year.	Total SHGs	95723 (11.45%)	33093.47 (29.66%)	115326 (20.48%)	48551.62 (46.71%)	139480 (20.94%)	68696.98 (41.49%)	140683 (0.86%)	74185.88 (7.99%)	145821 (3.65%)	81768.62 (10.22%)
	76090 (14.65%)	24168.16 (32.55%)	91961 (20.86%)	40458.06 (67.40%)	112491 (22.32%)	57327.63 (41.70%)	117597 (4.54%)	62805.77 (9.56%)	121177 (3.04%)	68971.83 (9.82%)	68971.83 (9.82%)
	% of Women SHGs	79.49	73.03	79.74	83.33	80.65	83.45	83.59	84.66	83.10	84.35

Source: Status of Microfinance in India 2011-12, 2009-10 & 2008-09, 2007-08, 2006-07 of NABARD.

Note: The data relating to All-Women SHGs performance of Assam in savings, Loan Disbursed, Loan Outstanding, Total Loans are calculated with the help of all India average percentage of All-Women SHGs. Note:Figures in the parenthesis are the growth rates.

Figure-5.6. Scenario of SHG in Saving and Amount of Savings with Banks in Assam, from 2007-08 to 2011-12.

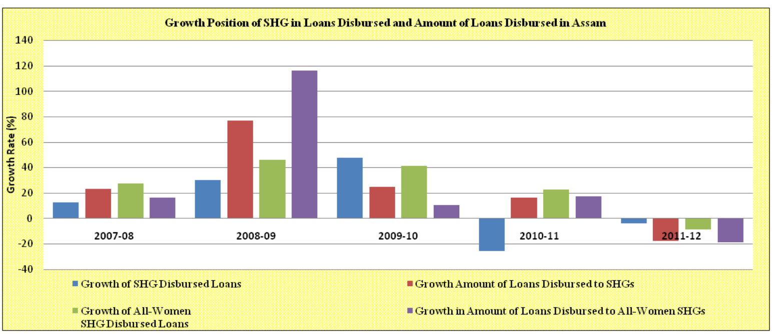


Source: Table- 5.5.

Again, the amount of loans disbursed during 2011-12 alone, was ₹ 18746.98 lakh to the 28012 SHGs in Assam, and the same was only ₹ 8869.10 lakh, to the 20318 SHGs at the beginning of the period of the study. Thus it recorded a total growth of 111.37 percent in the amount of loan disbursed and 37.87 percent in SHGs, in five years period of study, and an average growth rate of 22.27 percent p.a. in amount of loans disbursed and at 7.57 percent p.a. in SHGs. The growth of the

Same was highest in the year 2008-09 to 76.98 percent in the amount of loans disbursed. The loans disbursed to all-women SHGs are also considerable during the period of study, which is found in an average, of 82.93 percent in Assam, during the period of study and an increasing trend has been replicated in the formation of all-women SHGs as shown in the table-3.5. A Comparative analysis of SHGs in loan disbursed and with amount of loan disbursed is presented with the help of following diagram to show the performance during the period of study.

Figure-5.7. Performance of SHGs in Loans Disbursement and Performance in Amount of Loans Disbursed, in Assam

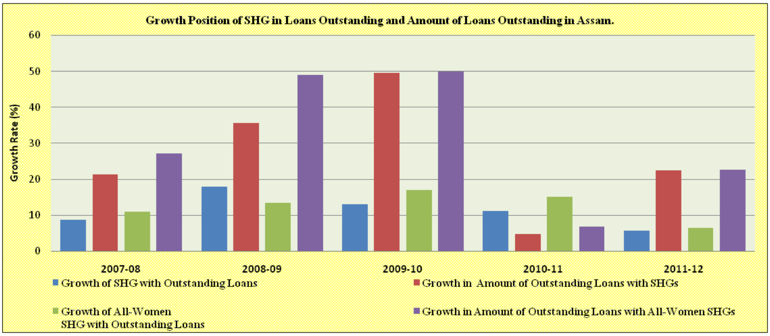


Source: Table- 5.5.

The relative growth positions was highest in 2008-09 during the period of study, and surprisingly, the growth rate of all other factors as shown in the above diagram come down to negative level in 2011-12, thus a huge fluctuation has been noticed during the period. Another important fact came-out of the diagram, is that, from 2009-10 onwards the growth rates are considerably declining and stands to negative growth by the end of the period of the study.

As regards balance of loans outstanding with SHGs it reveals that, in 2007-08, the amount of loans outstanding was only ₹ 24224.37 lakh, as against 75405 SHGs and with an average growth of 26.76 percent p.a. in the amount of loans outstanding and 11.24 percent p.a. in SHGs with loans outstanding, the amount of loans outstanding reached to ₹ 63021.64 lakh, as against 117809 SHGs by March, 2012. There is no negative growth that has recorded in any year during the period of study, thus recognising the expansion of microfinance service year after year. The growth rates of SHGs in loans outstanding and amount of loan outstanding with all-women SHGs are also impressive and records the growth more than 80 percent in both the respect. A diagrammatic presentation has been made as under to analyse the relative position of the factors with loans outstanding in Assam during the period of study.

Figure-5.8. Analysing the Performance of SHG in Loans Outstanding and with Amount of Loans Outstanding in Assam



Source: Table- 5.5.

Thus, total amount of loan provided (i.e., loan disbursed and loans outstanding) up to March, 2012, to 145821 SHGs in Assam reached to ₹ 81768.62 lakh, which recorded a total growth of

147.08 percent and an average growth of 29.42 percent p.a. during the period of study. The amount of total loans availed to all-women SHG in 2007-08, was ₹ 24168.16 lakh to the 76090 SHGs, and by an average annual growth of 37.08 percent p.a. in amount of loans outstanding and 11.85 percent in SHGs, the same reached to the balance of ₹ 68971.73 lakh, against 121177 SHG by March, 2012. Which is the highest growth recorded in microfinance service in the NER, and Assam is holding the leading position in microfinance service.

3.8.a. Analysing Performance of Microfinance under SHG Models in Assam:

The performance of microfinance under each of the SHG-bank linkage models (i.e., SHG model-I & II) and MFI-bank linkage model (i.e., SHG model-III) is presented in table-3.6, and it is found that, maximum amount of loans have been given to the beneficiaries together under model-I & II, which was in average 74.04 percent p.a. of the grand total amount of loans, and the same, under model-III was only 25.96 percent p.a. during the same period under study, in Assam. Again, the total growth made in five years in the total amount of loans is 124.93 percent, together under model-I and II, and that under model-III records a total growth of 259.52 percent in five years under study. Thus, in terms of amount of total loans, SHG-bank linkage models records more expansion and flow of micro-credit than MFI-bank linkage model, but in terms of growth, the MFI-bank linkage model (i.e., model-III) records better growth, so, microfinance service under model-III is considerably increasing and spreading in Assam. Again, the total amount of loans provided together under model-I and II in 2007-08 was 83.54 percent, which came down to 76.05 percent by March, 2012 and the same under model-III was only 16.46 percent in 2007-08 and has increased to 23.95 percent by March, 2012 of the grand total amount of loans given jointly under all the SHG models in Assam.

A diagrammatic presentation has also been made to analyse and to show the relative performance of microfinance in Assam under each of the SHG models. From the diagram it can be seen that, all the factors i.e., loans disbursed, loans outstanding and total amount of loans under the SHG models are in regular increasing trend, only with the little exception of decreasing trends in 2011-12, under model-III.

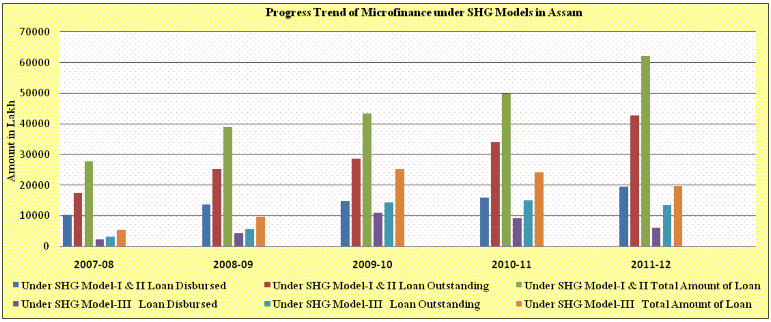
Table-5.6. SHG Model-wise Performance of Microfinance in Assam, from 2007-08 to 2011-12.
(Amount ₹ in Lakh)

Particulars	Under SHG Model-I & II			Under SHG Model-III			Grand Total of Loans under SHG Models- I, II & III.
	Loan Disbursed	Loan Outstanding	Total Amount of Loan (X)	Loan Disbursed	Loan Outstanding	Total Amount of Loan (Y)	
2007-08	10212.64 (18.36%)	17433.64 (21.98%)	27646.28 (20.13%)	2273.52 (35.68%)	3173.66 (46.21%)	5447.19 (68.73%))	33093.47
2008-09	13623.58 (33.40%)	25212.86 (44.62%)	38836.44 (40.48%))	4151.16 (82.59%)	5568.87 (75.47)	9715.18 (78.35%)	48551.62
2009-10	14783.59 (8.51%)	28674.12 (13.73%)	43450.83 (11.88%)	10970.91 (164.29%)	14268.36 (156.22%)	25246.14 (159.86%)	68696.98
2010-11	15883.20 (7.44%)	34088.41 (18.88%)	49971.61 (15.01%)	9221.30 (-15.95%)	14992.97 (5.08%)	24214.27 (-4.09%)	74185.88
2011-12	19444.58 (22.42%)	42732.28 (25.36%)	62185.04 (24.44%)	6124.47 (-33.58%)	13467.29 (-10.18)	19583.58 (-19.12%)	81768.62

Source: Status of Microfinance in India, NABARD.

Note: The model-wise allocation of microfinance in Assam as shown in table- 5.6, have been obtained by calculation, with the help of all India average rate/percentage of flow of microfinance under each of the models as shown in table-5.4 above. Because, NABARD do not published such information in its reports state or region wise, rather as a whole for the country. **Figures in the parenthesis are the growth rates.**

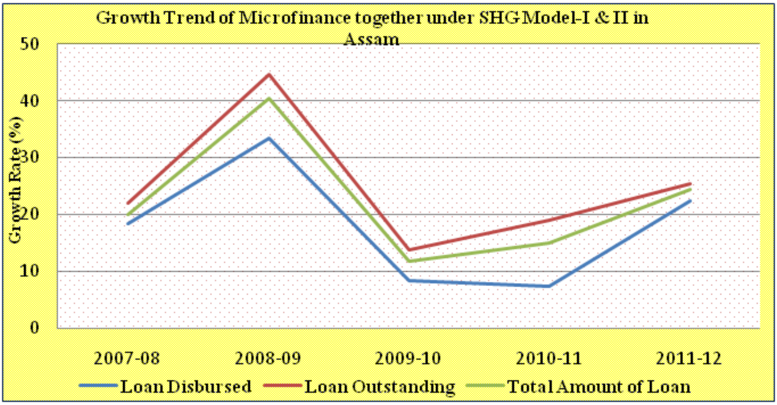
Figure-5.9. Magnitude and Progress of Microfinance under SHG Models in Assam, from 2007-08 to 2011-12. (Amount ₹ in Lakh)



Source: Table- 5.6.

*S*o, SHG-bank linkage models remain dominant in providing microfinance service to the people of Assam, because the performance in all the factors, as mentioned above, are higher than MFI-bank linkage model in absolute figures. The amount of loans disbursed together under model-I and II, in 2007-08 was ₹ 10212.64 lakh, which records a total growth of 90.40 percent in five years, with an average growth of 18.08 percent p.a. and reached to ₹ 19444.58 lakh by March, 2012, and the same under model-III, was ₹ 2273.52 lakh, in 2007-08, which recorded a total growth of 169.38 percent in five years period, with an average growth of 33.88 percent p.a. and reached to ₹ 6124.47 lakh by March, 2012. Again, in case of balance of loans outstanding with SHGs, the amount of loans outstanding under model-I and II together was amounted to ₹ 17433.64 lakh and recorded total growth of 145.11 percent in five years from 2007-08 to 2011-12, with an annual growth of 19.02 percent p.a. and reached to ₹ 42732.28 lakh by March, 2012. The same under model-III was ₹ 3173.66 lakh in 2007-08 and recorded a total growth of 324.34 percent, with an annual growth of 64.87 percent in the period of study and reached to ₹ 13467.29 lakh by March, 2012. Thus, the progress and growth trend under model-III are relatively better than together under model-I and II, during the period of study in Assam. The details progress and growth pattern under each of the SHG models are presented in following diagram to access the performance more clearly.

Figure-5.10. Growth Trend of Microfinance under SHG Model- I &II in Assam, from 2007-08 to 2011-12.

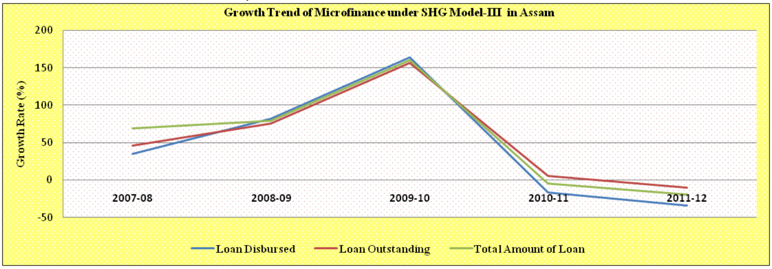


Source: Table-5.6.

So, the growth trend as depicted in the above diagram was to the maximum level in 2008-09, and after that there was a sharp fall in growth of all the factors i.e., loan disbursed, loans outstanding and in total amount of loans in 2009-10. Again, slow progress is recorded which can be seen in the diagram from 2010-11 onwards, interestingly, during the period of five years, none of the factors have recorded any negative growth, together under SHG model- I & II.

Again, to know the same under SHG model-III, another diagrammatic presentation has been made in figure-3.11, to access the progress and performance in terms of growth rates of loans disbursed, outstanding and total loans, more clearly, and it is found that, with steady increasing growth from 2007-08 in all the loans factor, it reached the highest level of growth in the year 2009-10, and after that, there was a sharp down-fall in the growth in all the factors of loans in 2010-11 and thereafter further down-fall was recorded, which can be observed from the diagram and recorded negative growth in all the factors of loans from 2010 to 2012, leaving the factor outstanding loans in 2010-11, which was slightly positive among the other loan factors. Thus, huge fluctuations have been found in microfinance service under model-III in Assam. The incident which occurred in Andhra Pradesh in 2010, the change of microfinance programme from SGSY to NRLM, etc. are some of the reasons for such huge fluctuation under model-III in our country, including Assam; decreasing interest of funding institutions and banks to MFIs for huge NPAs is also another reason behind such fluctuations.

Figure-5.11. Growth Trend of Microfinance under SHG Model-III in Assam, from 2007-08 to 2011-12.



Source: Table-5.6.

5.9. Conclusion:

During the period under study, the performance under microfinance service has been moved in two way dimensions, as in the first half of the period, i.e., from 2007-08 to 2009-10, the performance was in progressive trend in India and Assam, but, in the later part of the period of study, the performance and progress experienced downfall.

While we consider the magnitude of microfinance services in Assam in terms of SHG with saving in banks, it is found that only 3.47 percent SHGs belong to Assam, and same is 18.79 percent highest in the country, in case of Andhra Pradesh by the end of March, 2012. The relative position of Assam in NER is good as Assam occupied 75.42 percent of the total SHGs of the region and that with the amount of savings of ₹ 9845.98 lakh, which stands at 64.56 percent of the total amount of savings of NER. Thus, Assam is in leading position in the region, followed by Tripura and then Meghalaya (NABARD, 2012). In case of amount of loans disbursed to SHGs in 2011-12, Assam is having only 1.13 percent of the total amount of loans disbursed in India and among NER it is 41.54 percent, followed by Tripura and Manipur. On SHG model-wise analysis, it is found that SHG-bank linkage models (together SHG Model-I & II) remain in dominant position in terms of volume of SHGs and absolute amount of loans availed to SHGs in the country, than MFI-bank linkage model (i.e., SHG Model-III) during the period of study.

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Microfinance under SHG Models in Barpeta District of Assam

Chapter - 6

Microfinance under SHG Models in Barpeta District of Assam

6.1. Introduction:

Microfinance, which has been originated from 'Micro-credit' or Small loans concept of unorganized sector, is now includes a range of financial services, primarily, the provision of thrift, credit, insurance, remittance services, etc. for the needy people, predominantly for the poor and women. The services under microfinance have successfully brings positive impact in income generation, savings, living condition, self-employment, in developing knowledge and confidence, financial inclusion, women empowerment, etc. thus, acting as poverty eradication and development machinery in most of the developing countries.

As such, and to extend the service of microfinance, various method/methodologies have been developed and among them, the group based financing systems are found more successful, as in those system peer pressure served as collateral for recovery of credit. Thus, 'SHGs models', the Indian home grown models, have dominated the sector in extending the service of microfinance in our country. The SHG Bank linkage programme was initiated in 1992, under the initiative of NABARD to link only 500 SHGs, and, that pilot project has become a monolith and reached to 79.6 lakh SHGs, as well as has reached to over 10.3 crore rural households, and given access to regular savings, by the end of March, 2012. But, its services are not equally spread in the country, and most of SHGs formed and amount of loans have been disbursed in the southern states, particularly in Andhra Pradesh. The North-East Region remains underserved. As, of the total SHGs saving linked to Banks in India, southern states occupied 46.28 percent of the total SHGs and 56.68 percent of the total amount of savings with banks, and that, particularly in Andhra Pradesh (highest performing state in India) account for 18.79 percent of SHGs and 22.75 percent amount of savings. Where Northeastern states occupied only 4.61 percent of SHGs and 2.33 percent of the amount of savings, and that, particularly in Assam having 3.47 percent of SHGs and 1.50 percent of the amount of savings, even, Assam is in leading position in this region. A huge regional disparity in formation of SHGs, Savings, Loan Disbursed and Outstanding etc. may cause problems with the service quality, adaptability, suitability and implementations etc. associated with the SHG models in Assam and in its districts,

Among all the districts of Assam, Barpeta district has a prominent position in formation and operation of SHGs and their involvement in microfinance activities. Numerous numbers of SHGs exist in Barpeta District and, most surprisingly, around half of the total SHGs are found defunct. In this backdrop, we tried to describe the scenario of microfinance in the Barpeta District of Assam and analyze the performance of SHG models of microfinance in this district. In Barpeta District, the service of microfinance is delivering under SHG Model-II and Model-III and these models are found suitable and successful in giving access to microfinance services to the poor and women.

6.2. Microfinance in Barpeta District of Assam:

As informal source of finance, the practice of microfinance was in Barpeta District from ancient time in various forms and not exactly in the form, what we called ‘microfinance’ today. Then, it was simply the provision of small loan or micro-credit.

Poor people used to borrow from the money lenders or from local capitalist, mostly by mortgaging their valuables, like, jewellery, lands, cattle, etc. as security for the loan/ credit. Most of them basically borrowed consumption type loans or loans in case of acute needs of the family, with very high rate of interest, which even stood more than the principal sum of money they borrowed (IIBF, 2010) (Yunus, 2007). So, history of microfinance in Barpeta District of Assam had no exceptions from the rest of the country. The cooperative system was an initiation in the field of financial service for the poor in Assam and as well in Barpeta District and the role of rural credit cooperative have some impact in the life of rural people though is unable to bring such revolution among the rural people in the villages and of remote areas.

If we concentrate on the movement or start-up of microfinance services in the district then, it is after the introduction of SGSY programme the major poverty alleviation programme of GOI in the 2000, but, as reported by the district official, from 2004-05, the programme start progressing by forming SHGs in voluminous manner and prior to that the progress was not impressive. Considering the fact the researcher considers the period of study from 2007-08 to 2011-12, i.e., for five years and the progress and performance under the SHG models of microfinance of the said period only have been shown in this study. Again, under the SHG models, three SHG-credit linkage models exist, but in Barpeta district no such SHG were found during the field survey who are directly formed and nurtured by the banks in the district, which comes under SHG model-I. Limited bank branches, works overload, limited banks staffs, lack of interest of banks etc. are some of the general reasons for non-operational of model-I in the district. As such, the present study is confine to the rest of the two models i.e., SHG Model-II and SHG Model-III in Barpeta District of Assam. The detailed information and data of microfinance relating to the study about Barpeta District are presented in the following table.

Table-6.1. Magnitude and Progress of Microfinance in Barpeta District especially under SHG Models from 2007-08 to 2011-12 is presented in the following table: (Covering SHGs under Blocks, ASOMI, Bandhan& RGVN) (Amount ₹ in Lakh)

Sl. No	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Total No's of SHGs:	11346 (8.26%)	12674 (11.71%)	13640 (7.62%)	14663 (7.5%)	15477 (5.55%)
2.	All-women SHGs:	10952 (11.26%)	12422 (13.42%)	13324 (7.26%)	14437 (8.35%)	15261 (5.71%)
3.	% of Women SHGs:	96.53	98.01	97.68	98.46	98.60
4.	Total No's of Active SHGs	6166 (10.65%)	7170 (16.28%)	7549 (5.29%)	8088 (7.14%)	8392 (3.76%)
5.	Amount of Loans Disbursed against SHGs as on 31st March: (`).	1615.69 (49.64%)	1950.86 (60.47%)	2275.51 (16.64%)	2881.87 (26.64%)	2840.31 (-1.44%)
6.	Amount of Outstanding Loan against SHGs as on31st March.	2890.79 (5.23%)	2669.33 (-7.66%)	3905.24 (46.30%)	4008.43 (2.64%)	4811.83 (20.04%)
7.	Total Amount of Loan against SHGs as on 31st March: (5+6) (`).	4506.93 (10.06%)	4620.19 (12.51%)	6180.75 (33.78%)	6890.30 (11.48%)	652.14 (11.06%)
8.	Total Amount of Loan Disbursed to All-women SHGs as on 31st March. (`).	3447.46 (10.61%)	3666.12 (6.34%)	5075.02 (38.43%)	5832.64 (14.93%)	6587.73 (12.95%)
9.	% Amount of Loan Disbursed to All-women SHGs as on 31st March. (`).	76.50	79.35	82.11	84.65	86.09
10.	% of Total Loan Recovered: (`)	90.61	92.25	93.16	97.11	96.56

Source: Compiled & Prepared from the records of DRDA & Block Offices of Barpeta District, from the records of ASOMI Branches (i.e., Barpeta Road, Sarbhog & Chenga Branch), of BANDHAN Branches (i.e., Barpeta Road Branch-I &II &VellaNagoan Branch) and of RGVN Branches (i.e., Sarthebari&Bahari Branch) of Barpeta District.

Note: Figures in the paren thesis are the growth rates.

6.3. Magnitude and Progress of SHG in Barpeta District:

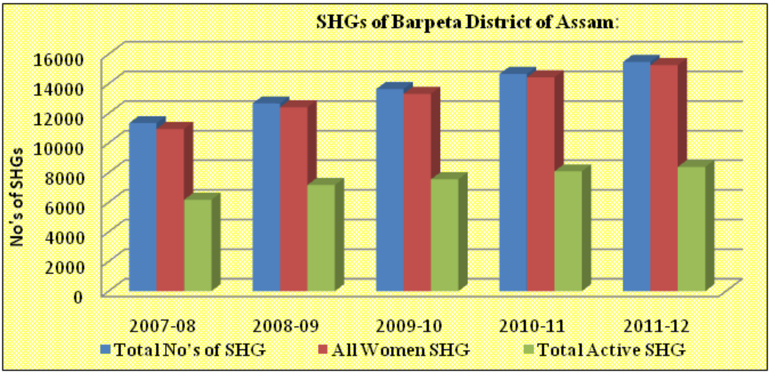
Total SHGs linked to Banks and MFIs of the District up to the end of March, 2012, has grown to 15, 477, which was 11346 SHGs during 2007-08, thus, the same recorded a total growth of 36.41 percent and an average growth of 7.28 percent p.a. during the period of study in linking SHG, together under SHG model-II and III. The least growth rate recorded during the period was 5.55 percent in the year 2011-12. The position of all-women SHGs in Barpeta District is impressive and having reached beyond the national average of 80 percent (NABARD, 2012). Women members occupied the lion share in microfinance in the district, as all-women SHGs in the District have increased to 15,261 of the total SHGs up to March, 2012, which is 98.60 percent of total SHGs of the district. The position of all-women SHG in the district in 2007-08 was comparatively a bit poor, as there was 10952 SHGs and that stood to 96.53 percent of the total SHG of that year. Thus, total growth of all- women SHGs in the district comes to 39.34 percent in the five years with an average growth of 7.87 percent p.a. A diagrammatic presentation has been made with the help of total SHGs, all-women SHGs and active SHGs in figure-6.1, to show the magnitude and progress of SHGs in Barpeta District, and it is found that, during the period of study SHGs in the district records slow progress year after year, almost at the same rate of growth in all the factors of SHG. Of the total SHG, only 8,392 SHGs are reported as Active[1] SHG in the district and that is only 54.22 percent of the total SHG. Thus, near to half

1 Active & defunct SHGs here recorded as per the records and information of SHGs intermediaries of Barpeta District.

of the total SHGs in the district are found defunct and those SHGs are no longer in existence or not interested in SHG activities. As reported by the intermediaries of microfinance in the district, most of those defunct SHGs were formed with the intention to take the benefits of subsidy and while they found no more subsidies they stopped working and their SHGs became inactive.

A diagrammatic presentation has been made with help of total SHGs, comparing with all-women SHGs and active SHGs, in the district during the period of study as follows:

Figure-6.1. Total, All-Women and Active SHGs Positions in Barpeta District of Assam, from 2007-08 to 2011-12:



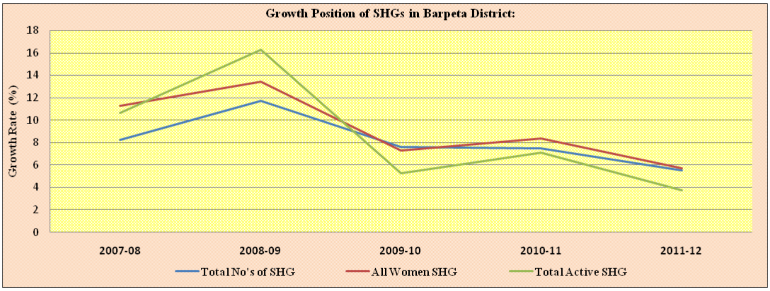
Source: Table-6.1.

So, it can be observed from the above diagram that, a steady incremental trend and progress have been recorded during the period of study in the district in all the factors of SHG and most importantly no abnormal fluctuation has been recorded during the period of study.

6.4. Growth Trend of SHG in Barpeta District:

While SHGs growth position is considered, the growth trend of the same have gradually come down from 2007-08 to 2011-12, which can be viewed from the following in figure - 6.2, which is prepared taking the growth rates of the total, all- women and active SHGs of Barpeta District.

Figure-6.2. Growth Trend of SHG in Barpeta District of Assam formed under SHG Models, from 2007-08 to 2011-12



Source: Table-6.1.

It is clearly depicted in the above diagram that, the SHG growth rate and position have come down from 2009-10 onwards and those growth rates come even below 10 percent in the district, the growth rates was maximum in 2008-09 as viewed in the above diagram. The position of active SHGs in terms of growth during the period of study recorded a total growth of 36.10 and an average growth of 7.22 percent p.a. in the study period. But, the growth rate of the same was very poor as 3.76 percent during 2011-12. Thus, growth rate of active SHGs come down during 2011-12, even below the average rate. This indicates the slow progress in the formation and leaves question marks to the sustainability of SHGs in the district, owing to the poor management, limited credit flow, subsidy provision under SGSY, rural people participation in NREGA, etc. in the district has weaken the performance.

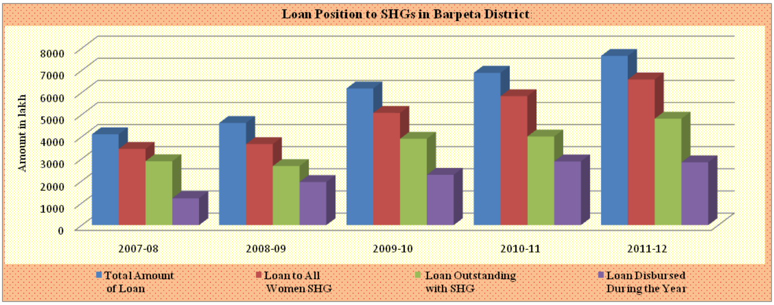
6.5. Magnitude of Loans Provided under SHG Models in Barpeta District:

The total amount of loans availed to the beneficiaries or SHG members in Barpeta District occupy only 9.36 percent of the total amount of loans availed in Assam, comprising of loans disbursed and loans outstanding during 2011-12. The share of district in the state were same with little difference in the whole period of study, as it was 13.62 percent in 2007-08 the highest score in period under study, 9.52 percent in 2008-09, 9.00 percent in 2009-10 and 9.29 percent in 2010-11, and those with an average share of 10.16 percent p.a. during the five years period under study[2] . The amounts of loans disbursed to the SHGs in the district were ₹ 1615.69 lakh in 2007-08, which with an average incremental growth of 30.39 percent p.a., reached to ₹2840.31 lakh by March, 2012, with the exception of negative growth of 1.44 percent during 2011-12, during the period of study. As regards amount of loans outstanding with SHGs in the district, the records reveal that, it was ₹ 2890.89 lakh in 2007-08 and the amount of loans outstanding balance rose to ₹ 4811.83 lakh, which seems near to double by the end of March, 2012, thus, recognising considerable growth in financing during the period of study. All-women SHGs constitute the lion share in the district and of the total amount of loans given to all- women SHGs, 81.74 percent p.a. are provided only to those SHGs in the district with little variation, during the period of study. A diagrammatic presentation has been made with the help of amount of total loans, loans to all-women SHG, loans disbursed, and loans outstanding to have a clear

2 The share total amount of loans availed during the period under study are calculated taking the figures of total loans of Assam and of Barpeta District year after year.

picture about the magnitude of microfinance in the district during the period of study, which is as follows:

Figure-6.3. Magnitude of Loan Provided to SHGs in Barpeta District of Assam under SHG Models: (Amount ₹in Lakh)



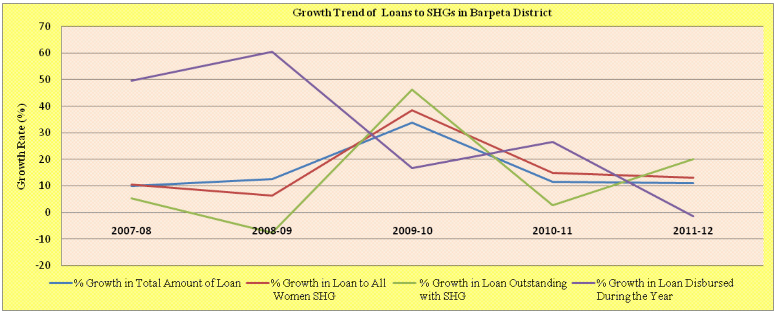
Source: Table-6.1.

It can be observed from the diagram that, the position of loan factors is gradually increasing, maintaining the same sequence and rate year after year during the period of study, thus, the loan factors are normally growing, which is a healthy sign of development of microfinance position and services in the district.

6.6. Analyzing the Growth Trend of Loans under SHG Models in Barpeta District:

To know the actual picture of performance and progress of microfinance more precisely in the district through its lending to the SHGs under the SHG models, effort were made to find out the growth pattern of loans availed to SHGs during the period under study with the help of diagram as given in figure-6.4. It is depicted in the same that, considerable ups and downs have been recorded in the growth rates among the loan factors during the period of study in the district and in some cases negative rates of growth have also occurred.

Figure-6.4. Growth Trend of Loans Provided to the SHGs in Barpeta District of Assam, from 2007-08 to 2011-12.



Source: Table-6.1.

The amount of loan disbursed to the SHGs during year 2011-12 was ₹ 2,840.31 lakh and that recorded a total growth in disbursing loans to SHGs from 2007-08 to 2011-12, of 133.64 percent, with an average growth of 26.73 percent p.a. during the period of study. But, during 2011-12, the rate of growth of the same was negative to 1.44 percent in the district. Again, the amount of loan outstanding with the SHGs in the district up to March, 2012, was ₹ 4,811.83 lakh, which recorded a total growth of 66.45 percent and an average growth of 13.29 percent p.a. during the period of study. The growth of loans outstanding was negative in 2008-09 and highest in 2009-10 to 46.30 percent, again fell in 2010-11 and increased a little in 2011-12.

As all-women SHGs have occupied the lion share in the district and up to March, 2012, the total amount of loans disbursed to those SHGs were ₹ 6,587.73 lakh and that recorded a total growth of 91.09 percent, with an average growth of 18.22 percent p.a. during the period of study. Of the total amount of loans, maximum amount of loans are availed to the all-women SHG in the district, which in average was 81.74 percent p.a.

during the period of study. Further, of the total amount of loans availed (i.e., loans disbursed and loans outstanding) against the SHGs in the district recorded a total growth of 86.34 percent in five years, with an average growth of 17.27 percent p.a. during the period of study.

6.7. Analyzing SHG Model-wise performance of SHGs in Barpeta District:

As among the three SHG-credit linkage models, SHG Model-II and Model-III are functional in the district and no such SHGs were found which are directly formed under Model-I, as such, analysis of this part are confine to the models which are operating and functional in the Barperta District. Again, details, as regards SHG models have already been mentioned in the introductory chapter, but for the sake of convenience a brief outline of two functional models in the district are given below:

SHG Model-II: Under this model, SHGs are formed and nurtured by the intermediaries, which includes GOs and NGOs and after a certain period and on satisfactory performance in group management and group funds handling (i.e., savings of members), they are being linked to banks for loans. In Barpeta District, the task of formation, nurturing, linking etc. of SHGs under SHG Model-II are performed under the blocks by the Blocks official at the block and village level and after their satisfaction and scrutiny about the performance of the group they send it to the DRDA office for the approval and sanction of loans. While assessing the performance of SHGs, (the Blocks official and sometimes persons from banks also join in the process) for grading the SHGs on their performance, on the basis of some parameters, where they mainly consider the following five points of SHG and these points are also known as ‘Pancha Sutra’, (i.e., five point formula) for grading and promotion of SHG and includes:

1. Weekly Meeting;
2. Weekly Savings;
3. Internal Credit;
4. Recovery of Internal Credit;
5. Records keeping;

On satisfactory performance evaluation, the list of SHGs are sent to DRDA for the sanction of loan and DRDA may call some groups for talking if they feel the need, and after their needful verification they send the list of SHGs to the banks and a copy to the respective blocks for record keeping and the groups are availed loans through banks, thus the groups are being linked with bank branches.

SHG Model-III: Under this model, some NGOs and MFIs, as intermediaries, avail bulk amount of loan from various funding institutions/banks for on lending to the groups. The intermediaries take care of the groups in all respect and directly finance the groups. The groups in return have to follow the instruction of those intermediaries and have to repay the loan as per the time and size of installment fixed by them. In Barpeta District, ASOMI, Bandhan, RGVN are the leading MFIs dealing with SHGs to provide micro-credit under this model. The selection procedure, promotion criteria etc. of SHG depends upon the intermediary, which slightly varies among the service providing intermediaries, but the basic objectives remain same.

A detailed SHG model-wise break-up of SHGs in the district are given in the following table:

Table-6.2. SHG Models wise performance in the formation of SHG in Barpeta District of Assam, from 2007-08 to 2011-12.

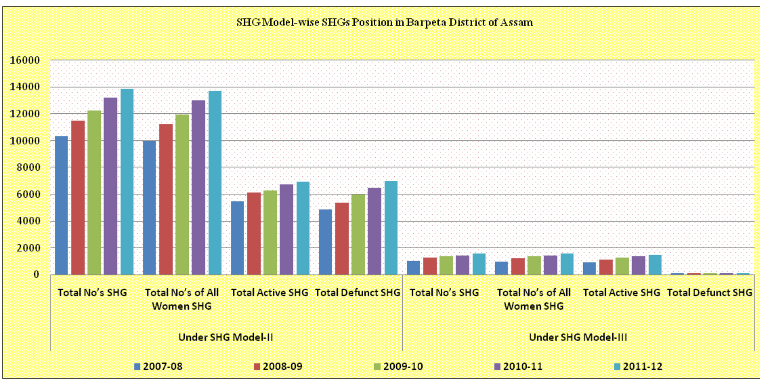
Particulars/ Year	Under SHG Model-II					Under SHG Model-III					Grand Total SHG under Models- II & III. (X+Y)	Model-wise SHG Formation Performance in Ratio: X/Y
	Total No's SHG (X)	Total No's of All-women SHG	Total Active SHG	Total Defunct SHG	Active to Defunct SHG Ratio	Total No's SHG (Y)	Total No's of All-women SHG	Total Active SHG	Total Defunct SHG	Active to Defunct SHG Ratio		
2007-08	10324 (9.68%)	9966 (10.37%)	5468 (6.83%)	4856 (6.98%)	1.13:1	1022 (16.73%)	987 (11.21%)	896 (16.65%)	126 (2.38%)	7.10:1	11346 (9.36%)	10.10:1
2008-09	11477 (11.17%)	11249 (12.87%)	6104 (11.63%)	5373 (10.65%)	1.14:1	1242 (21.53%)	1217 (23.30%)	1117 (24.67%)	125 (-0.79%)	8.94:1	12719 (12.10%)	9.24:1
2009-10	12251 (6.74%)	11967 (6.38%)	6282 (2.92%)	5969 (11.09%)	1.05:1	1380 (11.11%)	1348 (10.76%)	1267 (13.43%)	113 (-9.60%)	11.21:1	13631 (7.17%)	8.88:1
2010-11	13231 (8.00%)	13027 (8.86%)	6734 (7.20%)	6497 (8.85%)	1.04:1	1432 (3.77%)	1410 (4.60%)	1354 (6.87%	78 (-30.97%)	17.36:1	14663 (7.57%)	9.24:1
2011-12	13891 (4.99%)	13697 (5.14%)	6928 (2.89%)	6963 (7.17%)	0.99:1	1586 (10.75%)	1564 (10.92%)	1464 (8.12%)	122 (56.41%)	12:1	15477 (5.55%)	8.76:1

Source: Compiled & Prepared from the records of DRDA Office and Block Offices of Barpeta District, for the data under SHG Model-II, & from the records of ASOMI Branches (i.e., Barpeta Road, Sarbhog&Chenga Branch), of BANDHAN Branches (i.e., Barpeta Road Branch-I & II &VellaNagoan Branch) and of RGVN Branches (i.e., Sarthebari&BahariBranch) of Barpeta District, for the data under SHG Model-III.

Note: Figures in the parenthesis are the growth rates.

If we consider the model-wise SHG formation performance in the district, more numbers of SHG are being formed under model-II, than model-III and that in terms of ratio which was 10.10: 1 in 2007-08, and that has improved a little towards model-III, and in 2011-12, the ratio of SHG formation stands at 8.76:1 under model-II to III. An analytical diagrammatic presentation has been made to show the performance in the formation of SHG under each of the models as follow:

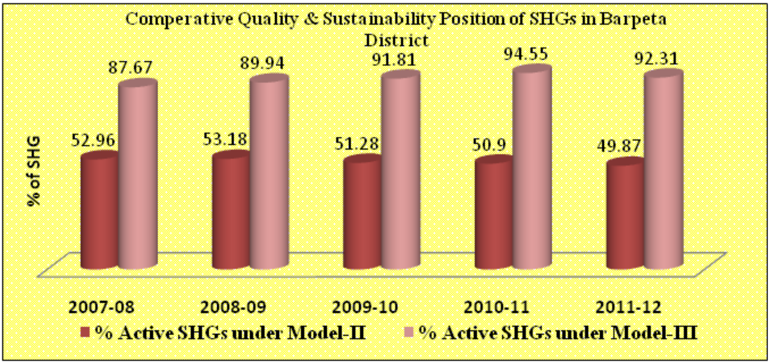
Figure-6.5. SHG Model-wise Trend and Pattern of SHG in Barpeta District of Assam, from 2007-08 to 2011-12.



Source: Table-6.2.

From the above it can be easily understood that more SHGs were formed under SHG model-II in comparison to the model-III, but in both the models the trend of formation of SHGs are common during the period. The quantum of all-women SHG formed under each model is high and different, but their trends of progress under each of the model are alike. But, in the quality assessment of SHG under each model, the half of SHGs formed under model-II have gone defunct as per their records, and those SHGs are not in touch with the intermediaries and the same in case of model-III is very efficient and only a meagre percentage of SHGs is reported as defunct in the district. Thus, SHGs formed under model-III, is well managed by those intermediaries and more sustainable in comparison to model-II, under study. To have precise outcome on the issue of quality and sustainability of SHGs under each of models, a diagrammatic presentation has been made as follows:

Figure-6.6. SHG Model-wise Quality and Sustainability Position of SHG in terms of Active and Defunct SHGs in Barpeta District.



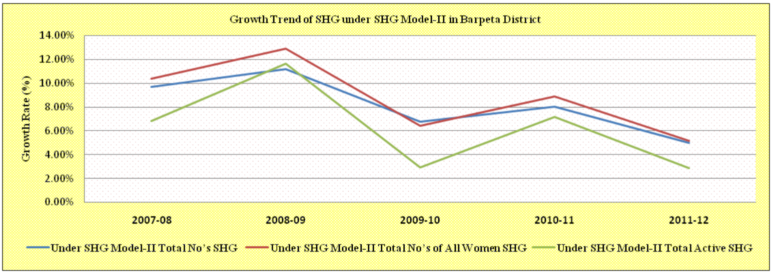
Source: Table-6.2.

In year-wise comparison of the active SHGs under each of the SHG models, it is clear that SHGs formed and managed under model-III are more active and sustainable and that in an average is 91.26 percent p.a. SHGs under this model are found more active during the period of study in the district, and that in case of model-II is only 51.64 percent p.a. in average during the same period of study in the district. Thus, an average gap of 39.62 percent p.a. or SHG model-II is lagging behind by the same percentage from model-III in the sustainability of SHG during the period of study.

6.8. Growth Trend of SHGs under SHG Model-II in Barpeta District:

The growth trend and position of the SHGs formed under model-II in the district, taking the growth factors of total SHGs formed, total all-women SHGs and total active SHGs, the following diagrammatic presentation has been made in figure-6.7.

Figure-6.7. Growth Trend of SHGs under SHG Model- II in Barpeta District of Assam.



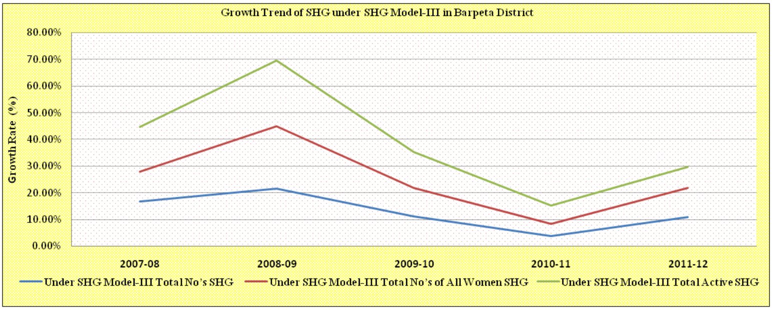
Source: Table-6.2.

The diagram clearly indicates that, the growth trend in all the factors are gradually coming down from 2007-08 to 2011-12, and more importantly the trend line of active SHG is under all the trend lines presented in the diagram, which is very important to be considered and more important line among all the trend lines presented in the diagram. Thus, positions of SHG under model-II are gradually deteriorating and very poor during 2011-12 in the district, and during the period of study.

6.9. Growth Trend of SHGs under SHG Model-III in Barpeta District:

The growth pattern of SHGs in the district under model-III is shown in the figure-6.8, and it is clearly understood from the same that, the growth was highest during 2008-09, in the periods of study and after that, there was sharp fall in the growth rates in all the factors of SHGs growth rates under consideration, but from 2010-11 to 2011-12, a slow progressive growth has been noticed in the diagram which is a good sign.

Figure-6.8. Growth Trend of SHGs under SHG Model- III in Barpeta District of Assam.



Source: Table-6.2.

Again, the growth rate and trend of active SHG is above all the growth lines in the figure, which is found just reverse under model-II as mentioned earlier. Thus, from the two diagrammatic presentations it is clear that, by the end of the period under study, all the growth lines under model-II records downwards movement and the same under model-III records upward movement or in progressive trend.

6.10. Analysing SHG Model-wise Magnitude and Trend of Microfinance in Barpeta District:

The details of microfinance performance under each of the SHG models in the district are presented in table-6.3 and it is found from the same that, model-III has performed well in terms of providing more amount of loans to the beneficiaries in comparison to model-II, if we consider the model-wise loaning performance ratio as given in the table, more amount of loans or microfinance has been availed under model-III in all through the period of study, and the average ratio of lending under these two models comes to 0.73:1 p.a. during the period of study. The amount of loan disbursed under model-II in 2007-08 was only ₹ 386.85 lakh, which at an average annual growth of 21.97 percent reached to ₹ 811.81 lakh during 2011-12, and in case of loan outstanding with SHG in the district, it was an amount of ₹ 1573.51 lakh in 2007-08, which rose to the balance of loans outstanding to 2564.84 lakh, thus registered a total growth of 63 percent in period of study. But, position of loans disbursed under model-III was ₹ 1228.84 lakh in 2007-08, which with an average annual growth of 13.01 percent reached to ₹ 2028.50 lakh, by March, 2012 in the district, including a negative growth of 1.76 percent in 2011-12. Again, about the amount of loans outstanding with SHG in the district, it was only 1317.73 lakh in 2007-08, which rose to ₹ 2246.99 lakh by March, 2012, thus, registered a total growth of 70.52percent during the period of study.

Table-6.3. SHG Model-wise performance of Microfinance in Barpeta District, from 2007-08 to 2011-12.

(Amount ₹in Lakh)

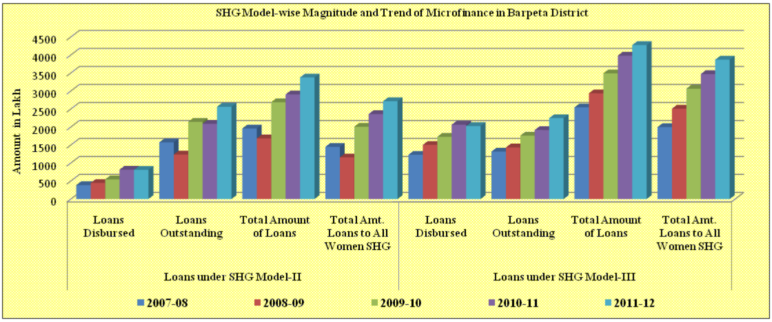
Particulars/ Year	Under SHG Model-II					Under SHG Model-III					Grand Total SHG under Models- II & III. (3+6)	Model-wise SHG Formation Performance in Ratio: X/Y
	Loan Disbursed (1)	Loan Outstanding 2	Total Amount of Loan (X) 1&2=3	Total Amount of Loan given to all-women SHG	% of loans to all-women SHG	Loan Disbursed 4	Loan Outstanding 5	Total Amount of Loan (Y) 4&5=6	Total Amount of Loan given to all women SHG	% of loans to all-women SHG		
2007-08	386.85 (19.20%)	1573.51 (12.95%)	1960.36 (6.32%)	1449.87 (15.55%)	73.96	1228.84 (18.33%)	1317.73 (4.32%)	2546.57 (9.68%)	1997.93 (18.40%))	78.46	4506.93 (16.33%)	0.77:1
2008-09	447.07 (15.57%)	1236.67 (-21.41%)	1683.74 (-14.11%)	1156.05 (-20.27%)	68.66	1503.79 (22.37%)	1432.66 (8.72%))	2936.45 (15.31%))	2510.07 (25.63%)	85.48	4620.19 (2.51%)	0.57:1
2009-10	546.18 (22.17%))	2143.86 (73.36%)	2690.04 (59.77%)	2008.89 (73.77%)	74.68	1729.33 (15.00%)	1761.38 (22.94%)	3490.71 (18.88%))	3066.13 (22.15%))	87.84	6180.75 (33.78%)	0.77:1
2010-11	817.01 (49.59%))	2090.32 (-2.50%)	2907.33 (8.08%))	2361.15 (17.54%)	81.21	2064.86 (19.40%)	1918.11 (8.90%)	3982.97 (14.10%)	3471.49 (13.22%)	87.16	6890.30 (11.49%)	0.73:1
2011-12	811.81 (-0.64%)	2564.84 (22.70%)	3376.65 (16.14%)	2716.96 (15.07%)	80.46	2028.50 (-1.76%))	2246.99 (17.15%)	4275.49 (7.34%)	3870.77 (11.50%)	90.53	7652.14 (11.06%)	0.79:1
Average	601.78 (21.18%)	1921.84 (17.02)	2523.62 (15.24%)	1938.58 (20.33%)	75.79	1711.06 (14.67%)	1735.37 (12.41%)	2599.89 (13.06%)	2983.33 (18.18%)	85.89	5970.06 (15.03%)	---

Source: Compiled & Prepared from the records of DRDA Office and Block Offices of Barpeta District, for the data under SHG Model-II, & from the records of ASOMI Branches (i.e., Barpeta Road, Sarbhog&Chenga Branch),of BANDHAN Branches (i.e., Barpeta Road Branch-I &II &VellaNagoan Branch) and of RGVN Branches (i.e., Sarthebari&BahariBranch) of Barpeta District, for the data under SHG Model-III.

Note: Figures in the parenthesis are the growth rates.

The all-women SHGs constitute the major share in the district, thus an effort was made to know the amount of loans provided to them, and the total amount of loans provided to those SHG under model-II was ₹ 1449.87 lakh in 2007-08, which by registering an average growth of 20.33 percent p.a. reached to ₹ 2716.96 lakh by March, 2012. The same under model-III was ₹ 1997.93 lakh in 2007-08, rose with an average growth of 18.18 percent p.a. and reached to ₹ 2983.33 lakh by March, 2012. Further, the women SHGs are given in an average 75.79 percent of the total amount loans under model-II during the whole period of study and the same under model-III was in an average of 85.89 percent during same period of study in the district. Thus, under model-III, 10.10 percent more amount of loans had been extended to the all-women SHGs in the district in all through the period of study. Again, total amount of loans provided under model-II in the district was ₹ 1960.36 lakh in 2007-08, which increased with an average growth rate of 15.24 percent p.a. and reached to ₹ 2523.62 lakh in 2011-12, and the same under model-III, was ₹ 2546.57 lakh in 2007-08, which rose to ₹ 2599.89 lakh by recording an average growth of 13.06 percent p.a. during the entire period of study. Surprisingly, despite having such huge volume of SHG under model-II (i.e., 90.99% of the total SHG in the district) in the district only 43.50 percent of the grand total amounts of loans were provided to SHGs in 2007-08 and that under model-III was 56.50 percent to only 9.01 percent of the total SHGs during the period. This huge disparity signifies that, the SHGs under model-III were availed more amount of loans and SHGs under model-II were under-served or extended poor amounts of loan. Again, if we consider the same for the year 2011-12, an amount of ₹ 2523.62 lakh, which is 42.27 percent of the grand total amount of loans were extended to the beneficiaries under model-II in the district, and under model-III the same was ` 2599.89 lakh, which is 57.73 percent of the grand total amount of loans provided in the same period of study. The magnitude and trend of microfinance in the district is also presented with a diagram in figure-6.9 to understand the scenario more clearly.

Figure-6.9. Magnitude and Trend of Microfinance under SHG Model- II & III in Barpeta District of Assam.



Source: Table-6.3.

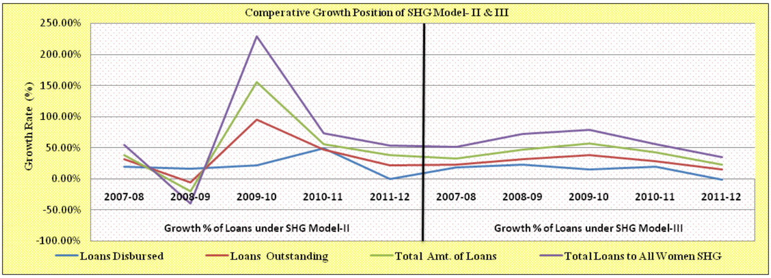
Simply it can be understand from the diagram that, in all the factors of loans to the SHGs, performance under model-III is more lucrative and provided more amounts year after year, thus model-III holds better position in the magnitude of loans in Barpeta district of Assam.

6.11. Analyzing the Comparative Growth Trend of Microfinance under SHG Model-II and III in Barpeta District:

The growth trend of microfinance under each of the SHG models under study behave and move in reverse way, as under model-II the growth trends fluctuate considerably during the period of study in the district, but, the growth trends under model-III slowly progressed from 2007-08 to 2009-10 and thereafter gradually fell up to the end of the period under study. But, progress under model-III was almost steady in comparison to model-II in the same period of study. The Comparative growth position can better be understood from the following diagram, which is prepared taking all the growth rates of loans in Barpeta

District in the following diagram.

Figure-6.10.Comperative Growth Trend of Microfinance under SHG Model- II & III, in Barpeta District of Assam.



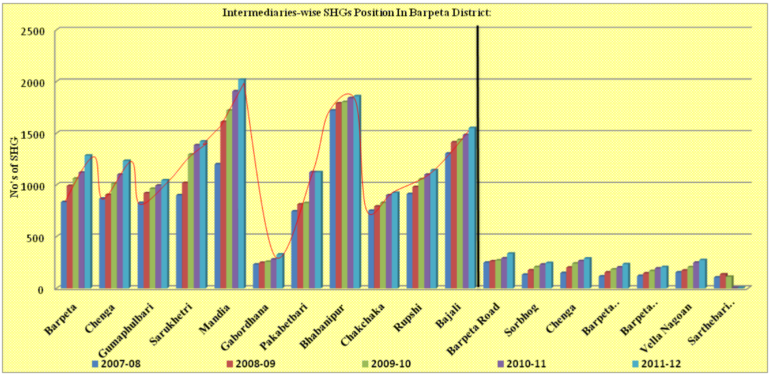
Source: Table-6.3.

So, the growth trends under model-II were negative, except in loan disbursed in 2008-09, which reached to the top level in 2009-10 and again fell down in 2010-10 and in 2011-12 consecutively. But, those under model-III experienced almost a flat and steady growth during the period of study. The growth of loans disbursed under model-II was 19.20 percent in 2007-08, which maintained an average incremental growth of 21.18 percent all through the period but registered a negative growth of 0.64 percent in 2011-12. The same under model-III was 18.33 percent in 2007-08 and recorded an average incremental growth of 14.67 percent p.a. during the period of study, but that stands to 1.76 percent negative growth in 2011-12. In the case of growth rate of loans outstanding with the SHGs in the district, it was only 12.95 percent in 2007-08, which reached to 22.70 percent in 2011-12, registering two negative growths of 21.41 and 2.50 percent respectively in 2008-09 and 2010-11. But, under model-III, the same was only 4.32 percent in 2007-08, which reached to 17.15 percent in 2011-12, by registering an average growth of 12.41 percent p.a. all through the period of study and no negative growth had been registered in the period. The growth pattern of loans to all-women SHG is a strong factor in the district, because more than 80 percent

SHGs fall under this category and in 2007-08, it registered a growth of 15.55 percent and that also maintained an average growth of 20.33 percent p.a. all through the period under study and stands at 15.07 percent in 2011-12, overcoming a negative growth of 20.27 percent in 2008-09 under model-II and the same under model-III, was 18.40 percent in 2007-08, and registered an average growth of 18.18 percent p.a. during the period of study and reached to 11.50 percent in 2001-12.

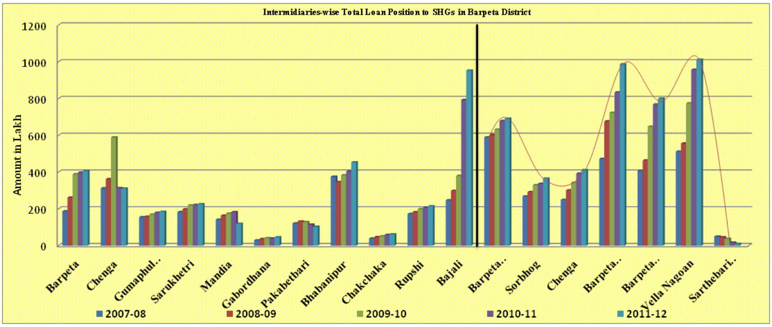
Further, Intermediaries-wise SHGs Position and Trend with their loans position during the period of study in Barpeta District under Model-II and III are presented with the help of following two diagrams:

Figure-6.11. Intermediary-wise Total SHGs Position in Barpeta District of Assam from 2007-08 to 2011-12



Source: Compiled & Prepared from the records of DRDA Office and Block Offices of Barpeta District, from the records of ASOMI Branches (i.e., Barpeta Road, Sarbhog&Chenga Branch),of BANDHAN Branches (i.e., Barpeta Road Branch-I &II &VellaNagoan Branch) and of RGVN Branches (i.e., Sarthebari&BahariBranch) of Barpeta District.

Figure-6.12. Intermediary-wise Total Amount of Loan Issued to SHGs in Barpeta District of Assam: (Amount ₹ in Lakh,)



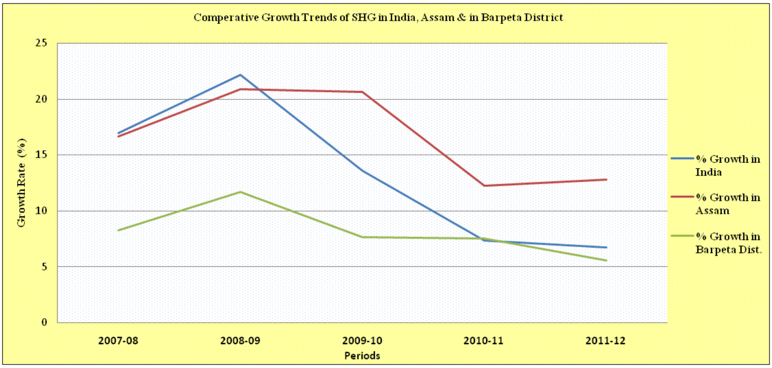
Source: Compiled & Prepared from the records of DRDA Office and Block Offices of Barpeta District, from the records of ASOMI Branches (i.e., Barpeta Road, Sarbhog&Chenga Branch),of BANDHAN Branches (i.e., Barpeta Road Branch-I &II &VellaNagoan Branch) and of RGVN Branches (i.e., Sarthebari&BahariBranch) of Barpeta District.

The outcomes of the above diagrams is very clear as maximum SHGs are formed under model-II by block intermediaries as shown in figure-6.11, but availed less amount of loans to those few percentage of SHGs. On the contrary, very few percentage of SHGs are formed under Model-III by NGOs/MFIs in the district, but maximum amount of loans are availed towards those SHGs, those groups are getting more loans or frequent loans in comparison to the SHGs formed under model-II in the district, during the period of study, that are shown in figure-6.12.

6.12. Analyzing Comparative Growth Position of SHGs in India, Assam and in Barpeta District under the SHG Models:

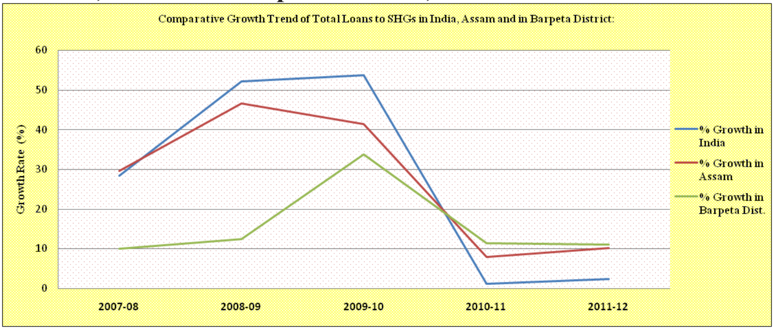
After going through the positions of microfinance in India, Assam and in Barpeta district as mentioned above, where mixed responses are found, and to show the relative position more precisely, efforts were made to have comparative study with the core factor of performance in terms of growth trends of SHGs right from national level to the district level and that will depict the picture more clearly. As such their performances have been presented with the help of following two diagrams as follows in figure-6.13 and figure-6.14:

Figure-6.13. Showing Comparative Growth Trend of SHGs in India, Assam and in Barpeta District, from 2007-08 to 2011-12.



Source: Table-5.2, 5.3, 5.4, 5.5, 6.1 & 6.2.

Figure-6.14. Comparative Growth Trend of Total Loans to SHGs of India, Assam & Barpeta District, from 2007-08 to 2011-12.



Source: Table-5.2, 5.3, 5.4, 5.5, 6.1 & 6.2.

In both the figures given above, it is clearly depicted that there is a sharp fall in the performance of SHGs and loans extended to them from 2009-10 onwards in all sector of microfinance, i.e., in India, Assam and as well in Barpeta District of Assam. The position was favourable from 2007-08 to the 2009-10, as highest growth rates were recorded during that period as shown in the figures. Such, drastic down-fall in both, in the growth of SHGs and in microfinance, (i.e., in extending total amount of loans), during the period had weakened the service of microfinance spreads and base in the country. The incidents that had occurred in Andhra Pradesh, where 30 farmers had committed suicide within a span of 45 days in 2010, after a few MFIs used coercive recovery tactics (Patra, 2011), is a strong reason for such adverse scenario as after such incidents many financing banks and institutions stopped financing to MFIs. The subsidy provision under SGSY programme also weakened the base of a group of SHGs, which were formed only to take the benefits of subsidy and not SHGs as a means of self-employment provisions, is also added to the reason of such downfall in the performance of microfinance sector in our country. Again, the change of programme from SGSY now to newly introduced NRLM also concentrate a lot in the change of the functional structures, power and management and also weakens the rapid growth and speeds of microfinance sector in the country during the period under study.

6.13. Conclusion:

During the period under study, the performance under microfinance service has been moved in two way, as in the first half of the period, i.e., from 2007-08 to 2009-10, the performance was in progressive trend in Barpeta district of Assam, but, in the later part of the period of study, the performance and progress experienced downfall.

Analysing the model-wise performance of SHGs in Barpeta

District of Assam, we found some distinctive picture during the period of study, as model-II is found popular and covered more number of members and is able to form more numbers of SHGs in comparison to that of under model-III. As, of the total SHGs in the district 89.75 percent are formed under model-II and only10.25 percent SHGs are under model-III, in 2011-12. Again, total amount of loans given to SHGs under model-II in the same period was ₹ 3376.65 lakh, which was 44.13 percent of the grand total amount of loans under both the models and the rest 55.87 percent, were given to only 10.25 percent of the total SHGs in the district. Thus, SHGs under model-III are given more amount of loans or frequent loans in comparison to the SHG under model-II in the district during the period of study. In terms of growth factors, under each of these two models, growth trends under model-II, both in case of SHG and in amount of loans to them, more fluctuations or ups and downs were recorded during the period of study, and by the end of the period, particularly in 2010-11 and 2011-12, the growth trends were down-falling in the district. But, the same under model-III were almost steady during the period of study, with a bit high in 2009-10 and a bit low in latter part of the period of study, particularly in 2010-11 to 2011-12, in the district. Again, in terms of sustainability of SHGs, formed under each of the SHG models, also varies a lot. The SHGs formed, managed and financed under model-II are half in an average of the total are defunct SHGs and only 50 percent of them survive or are functional in the district, but the same under model-III is found more than 91 percent as active and functional during the period of study in the district. Thus, over-all performance of SHGs under SHG model-III in the district during the period of study is better than SHGs under model-II, in respect of service, quantum of loans, growth trends and sustainability, etc.

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SHG Models on Developmental Parameters in Barpeta District

Chapter - 7

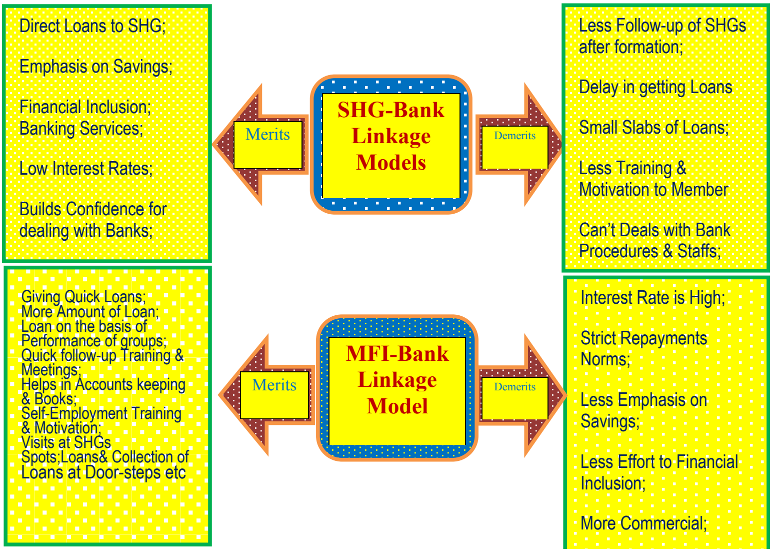
SHG Models on Developmental Parameters in Barpeta District

7.1. Introduction:

SHG models basically are the systems or approaches of linking the SHGs to provide microfinance services, which include a range of financial services, but primarily the provision of thrift and credit for the poor, living in rural and semi urban areas in our country. The models, which are very common and useful for the poor people today, are developed by replicating (with some additions and subtractions to cope with local environment) from many operating models or approaches that exist in different part of the world, which are established as successful and sustainable, popularly the 'Grameen Model' of Bangladesh (Yunus & Jolis, 2007). The SHG models are Indian home grown models, but the initial attention came from the much lauded Grameen Bank of Bangladesh (Srinivasan & Sriram, 2003)(Sundaram, 2007), and exhibited significant growth in terms of both number of SHGs financed by banks, bank loans outstanding and refinance assistance etc. As mentioned earlier in Chapter-1, SHG models comprise three credit-linkage models (i.e., SHG Model-I, II & III) and all the models are in operation with different proportion in our country, i.e., under model-I: SHGs are formed, financed and promoted by banks; bank itself acts as a SHPI (Self-Help group Promoting Institutions) ; under model-II: SHGs are formed by some agencies like NGOs and MFIs (other than banks) but directly financed by banks; and under model-III:

SHGs are promoted by NGOs/MFIs and are financed by banks through NGOs and MFIs as financial intermediaries (Ghosh, 2012). Thus, all the models are not same in their features and working procedures and that makes the difference in the service quality and performance on the basis of models. For instance, under Model-II, banks are not directly related with the SHGs for management and nurturing, which under Model-I and III, banks and NGOs/MFIs respectively, are directly involved. Again, under model-I and II, banks directly provide loans to the groups or SHGs and directly credit-linked with banks, but the same under model-III, banks and funding agencies/ institutions provide bulk loans to the NGOs and MFIs for on-lending to the SHGs, so, here, banks are indirectly related with SHGs (Arora & Meenu, 2012). Thus, model-I and II are same in terms of credit-linkage of SHG, hence called 'SHG-Bank linkage models' and the later, under model-III is called 'MFI-bank linkage model', (NABARD). The relative merits and demerits about each of the models will be helpful in this regard to understand their service quality and performance on some of the commonly adopted developmental parameters in the study and how they are unique.

Figure-7.1. Relative Merits and Demerits of SHG Models:



Source: Researcher own compilation with the help of secondary and primary information from the field survey. Note: SHG-Bank Linkage Models comprises SHG Model-I & II and MFI-Bank Linkage Model comprise SHG Model-III.

Mentionably, SHG models are developed according to the needs and circumstances or to suit the local environment, as in case of SHG model-I, the banks take care of all sides/respects of SHG right from formation to link the groups to the banks and further training and management for their sustainability, thus, it extensively increases the burden of workloads for the banks and in some places, where bank branches are already overloaded or not available, they are not willing to take these initiatives for the poor and deprived section of the society. Thus, channelized the concept of formation, nurturing and promotion of SHGs through the out-side agencies or NGOs and for the loans and other microfinance services the groups will be linked to banks, which will be helpful and will reduce the burden of banks and will follow the speedy expansion of the microfinance services to the needy people especially for the poor and the women, and that practices have developed the SHG model-II. But to provide services under these two models (i.e., model-I & II), the area should have good banking network or adequate bank branches should be there to cover the growing needs of microfinance, which is another major problem in our country, as the banking network and infrastructures are not uniformly distributed in our country, as such providing microfinance services only under model-I and II, appeared not sufficient, particularly in the areas where formal banking service are poor. To cope with that situation, and to extend the service of microfinance to the people of those areas, the banks, funding agencies and institutions start giving bulk loans with guidelines for on lending to the SHGs of those areas as intermediaries between the banks and SHGs. Those NGOs or MFIs have to take all responsibility from formation to management of the groups and on their satisfaction they will avail loans to the groups and the groups are also bound by the rules and regulation of their intermediaries. The groups, according to the terms, refund the loans to their intermediaries and intermediaries return the same to their funding banks or institutions with interest and this is what is called MFI-Bank linkage model or SHG Model-III, (Shodhganga).

If we consider the overall performance of the models in terms of members reached, SHG formed, amount of loans disbursed, loans outstanding etc. the ‘SHG-bank linkage models’ (together under model-I and model-II), till dominating the microfinance sector in India, as well as in Assam and in Barpeta District of Assam. The performance of the models in India varies from model to model, as 20 percent SHGs are credit linked under model-I; only 5.6 percent SHGs linked are under model-III and that dominantly 73.41 percent of total SHGs are credit linked under model-II in India. Again, of the amount of loans or credits disbursed to this sector, up to 11.86 percent is disbursed under model-I, 7.02 percent are under model-III and again, the maximum amount that up to 81.12 percent of the amount of loans disbursed only under model-II in India up to March, 2006 (RBI). A sum of ₹ 19444.58 lakh of loans disbursed with an outstanding amount of loan of ₹ 42732.28 lakh, under SHG-bank linkage model (i.e., model-I & II together) had been spread in Assam and the same under MFI-bank linkage model (i.e., model-III) was ₹ 6124.47 lakh and ₹ 13467.29 lakh, respectively by the end of March, 2012 in Assam. Even the performance of Assam, is very poor comparing to the other regions and states of the country. Again, high repayment rate of SHGs has encouraged banks to institutionalize SHGs under the SHG-bank linkage models and as per RBI Guidelines; banks may give loans to SHGs up to ₹ 5 lakh without insisting on 'collateral safety', (Bhagowati, 2014).

The microfinance service under the SHG models has grown at a tremendous pace in the last one and a half decade and emerged as the most prominent means of delivering microfinance services to the poor. The SHG-bank linkage programme has significantly improved the rural poor's access to formal financial services and has brought a positive impact on the socio-economic conditions of SHG households. The average annual net income, assets and savings of the households have increased significantly in the post-SHG period, also average amount of loans, regularity in re-payment has also increased and dependence on moneylenders decreased remarkably during the post-SHG period. The percentage of loans used for productive purposes and employment per household increased, and the incidence of poverty among SHG households declined significantly after the linkage programme. It has also improved the social empowerment of women members over a period after their joining to SHGs (Ghosh, 2012). Microfinance under the SHG models bring significant changes in the self-employment, especially among the rural people and women, thus, reduced their vulnerability and poverty conditions and microfinance for them is the finance with hope or progressive finance (Gaonkar, 2010). The models of microfinance are also playing very important role in the financial inclusion of the deprived people and the report reveals that, such financial inclusion performance would have not been possible without the intervention of SHG models in India (Deepti, 2011). The SHG concept of microfinance, which primarily focuses on strengthening the economic conditions of the deprived section, which is not only limited by that, rather it helps in improving their living standard, education level, health etc. and that ultimately enable them to retain their human rights (Deb Nath & Shil, 2012). The financial service under SHGs makes sea-change in the mindset of women of eighties and nineties and women of today, in the rural areas of our country (Borah, 2008-09-10). Further, SHG models with bank lending to groups of women without collateral has become an accepted part of rural finance and an important alternative to traditional lending in terms of reaching the poor and the problem of poverty can be solved through inclusive growth by microfinance (Das, 2012).

In this chapter, the performance of SHG models of microfinance on some developmental parameters[1] has been discussed with reference to the Barpeta District of Assam. Again, it is to be mentioned here that, during the period of field survey in Barpeta District, the area of this study, none of such SHG were found, which are directly formed, promoted and credit linked by Banks (i.e., under SHG Model-I), so, the present study in Barpeta District is confined to the SHG Model-II and Model-III only[2] to evaluate the performances on these selected parameters.

1 The developmental parameters to evaluate the performance under SHG models in Barpeta District of Assam from 2007-08 to 2011-12, have been taken for this study mainly includes SHG Performance, Loaning Performance, Savings Performance, Income Generating Activities Performance, Income Generation Performance, Financial Inclusion Performance, Women Empowerment Performance, along with Awareness Generation Performance, Training and Development Performance etc

2 During the field study effort were made to find out SHGs under each of the models, but no such SHGs were found which was formed under model-I, and on consultation with banks in the district, it is come to light that, banks are already over work-loaded and it is not possible for them to take care of SHG as such they are not directly formed any SHG. Initially, though few SHGs were formed under some of AGVB (Assam GraminVikash Bank) Branches, but letter on they are either stop or converted under model-II.

7.2. SHG and Members Outreached Performance:

In Barpeta District of Assam, SHG model-II is proved to be more efficient as regards formation of SHGs during the period of study, in comparison to model-III. As in 2007-08, the total numbers of SHG formed under model-II was 10324, which rose to 13891 by the end of March 2012, thus, registered a total growth of 34.55 percent during the period. That, under model-III, was only 1022 SHG in 2007-08, which rose to 1586 SHG by end of March, 2012, thus, registered a total growth of 55.19 percent during the same period of study. So, as regard growth rate in formation of SHG, model-III has performed higher than model-II in the period by 20.64 percent, a noticeable difference in growth rate. Again, the position of all-women SHGs in the district were up to 9966 SHG in 2007-08 and that rose to 13697 SHG in 2011-12, thus registered a total growth of 37.44 percent in the period of study under model-II. The same under model-III was only 987 SHGs in 2007-08 and rose to 1564 SHGs by the end of March, 2012, thus the total growth recorded to 58.46 percent during the same period under study in the district. Therefore, the performance in terms of growth rates of all-women SHGs is also in favour of SHG model-III, which was more by 21.02 percent than model-II[3] . Further and more importantly, the performance of SHG models in terms of their share of active SHGs in the district, which is very considerable to assess the performance, and by the end of March, 2012, total numbers of active SHGs under model-II out of the total SHGs was only 49.87 percent, i.e., more than half of the total SHGs were defunct or dormant and not functional in the district and it is a serious defect about the quality and sustainability of SHGs formed and managed under SHG model-II in the district. But, the same under model-III were found satisfactory as by the

3 The numbers and growth rates calculated & mentioned above are from Table-6.2, of Chapter-6 .

end of the same period, i.e., March, 2012, the proportion of total active SHGs to total SHGs formed under the model-III was 92.31 percent, and that clearly indicates the SHG under model-III are more active and of quality, well managed and are more sustainable in the district. In all, we can say that, the SHG model-III is relatively done well in terms of formation of SHGs, all-women SHGs and in active SHGs in the district during the period of study, than model-II. The other details and break-ups about the SHGs performance under each of the SHG models are already mentioned in chapter-3, of this study.

7.2.a. SHG Members Outreached: As mentioned in chapter-4, the majority of population are living in rural areas, thus called rural population, which is 86 percent of the total population of the district (Census, 2011), hence microfinance service occupied good position especially in the rural areas with rural people and especially with women cluster of the district. From the field survey and also from the records of the intermediaries in the district, which comprises eleven numbers of development blocks, three branches of each of the MFIs- ASOMI and Bandhan, one branch of RGVN (which have been considered for this study), together reported that, the total number of SHG beneficiaries or members by the end of March, 2012 are found 197485 in the district, of which 194142 members are women i.e., 98.31 percent of the total SHG members. Again, this figure constitutes 11.66 percent of the total population (i.e., of 1693190) in the district, further women SHG members or beneficiaries constitutes 23.52 percent of the total women population (i.e., 825299) of the district. The detail model-wise break-ups of SHG members or beneficiaries in the district are present in the following table, where it is found that, of the total SHG beneficiaries up to the date, 85.05 percent are covered under model-II and that under model-III accounts for only 14.95 percent of the total beneficiaries. Again, in percentage-wise performance assessment in reaching women beneficiaries of the total beneficiaries under each model, model-II seems slightly more than model-III.

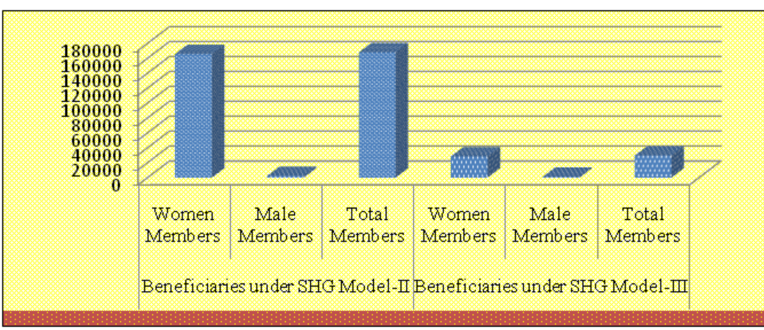
Table-7.1. SHG Model-wise Members/Beneficiaries Position in Barpeta District as on March, 31st 2012.

Beneficiaries under SHG Model-II				Beneficiaries under SHG Model-III				Total Beneficiaries under model-II & III in the District.
Women Members	Male Members	Total Members	% of Women members of the Total.	Women Members	Male Members	Total Members	% of Women members of the Total.	
165691	2266	167957	98.65	28451	1077	29528	96.35	197485

Source: Compiled from the records of Blocks offices, ASOMI, Bandhan& RGVN Branches of Barpeta District.

A diagrammatic presentation has been made to show the SHG model-wise comparative performance of its beneficiaries in Barpeta district in figure-7.2

Figure-7.2. SHG Model-wise Comparative Members Position in Barpeta District:



Source: Table-7.1.

7.3. Demographic Profile of Selected SHGs and Members:

In this study, the SHGs are the responding units and primary data have been collected from the group's heads and SHGs $\geq$ 5 years (as on 31.03.2012) are only considered and in field survey SHGs up to the age of 15 years were also found, thus the mean age of the SHGs surveyed is 9.21 years. The groups are gender specific, i.e., either all female or all male members groups and no such mixed members group was found in the district and surprisingly, 98.46 percent groups are only all-women SHGs and that under SHG model-III is slightly more than from SHG model-II, in Barpeta District[4] . The demographics classifications and education levels of the SHG members are as follows:

4 Of the three SHG credit linkage models, two models are in operation in Barpeta District and found actively working in the district during the period of study i.e. SHG Model-II & Model-III and necessary analysis have been made accordingly in this study.

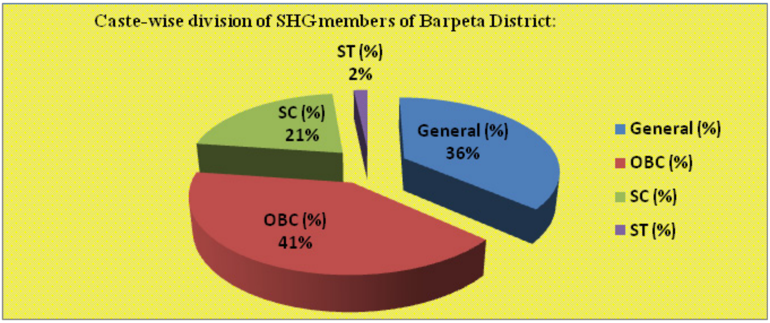
Table-7.2. Demographic Classifications of Selected SHG Members of Barpeta District, Assam.

SHG Models & Intermediaries of SHG		Total Number of Members	Male Members & Percentage	Female Members & Percentage	Caste				Total Me-mber
					Gen-eral (%)	OBC (%)	SC (%)	ST (%)	
SHG Model-II	Block	2275	54	2221	971	843	443	18	2275
	%	100	2.37	97.63	42.68	37.05	19.47	0.79	100
SHG Model-III	ASOMI	206	0	206	15	65	119	7	206
	Bandhan	522	0	522	93	326	78	25	522
	RGVN	84	6	78	46	24	12	2	84
	Total	812	6	806	154	415	209	34	812
	%	100	0.74	99.26	18.97	51.11	25.74	4.19	100
Total (Model-II & III)		3087	60	3027	1125	1258	652	52	3087
% (Model-II & III)		100	1.94	98.06	36.44	40.75	21.12	1.68	100

Source: Field Survey.

It is established from the table that, SHG members in the district mostly belong to OBC i.e., up to 40.75 percent of the total, followed by members of General caste up to 36.44 percent, than SC up to 21.12 percent and only 1.68 percent members are found belong to ST. Further, classification has been made with the help of the following pie-diagram:

Figure-7.3. Classification of Selected SHG Members on the Basis Caste in Barpeta District:



Source: Table-7.2.

Again, some noticeable variations have been found in the caste-wise proportion of SHG members under SHG Model-II and Model-III in the district which can be seen in the above table.

While, education qualification of the SHG members have been asked, it is found that, the members engaged in SHGs are mostly educated upto 'Upper Primary' i.e., up to 40.53 percent of members are found with that level of education, followed by 29.67 percent members, who are found only with 'Lower Primary' (i.e., read upto 1 to 5th standard) level of education in the district during the period of study. Other classification can be easily view from the following table:

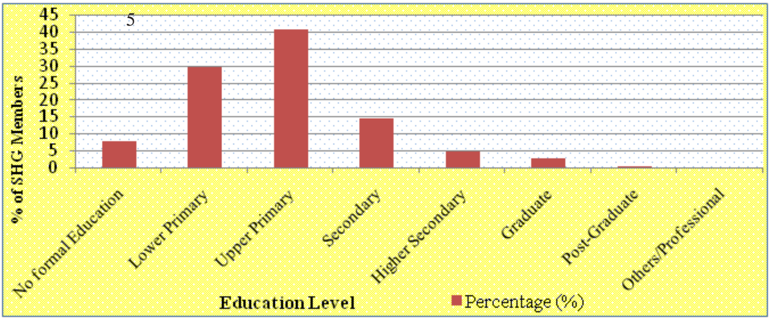
Table-7.3. Education Level of Selected SHG Members in Barpeta District of Assam

Education Level[5]	Of Block SHGs	Of Asomi SHGs	Of Bandhan SHGs	Of RGVN SHGs	Total Members	Percentage (%)
No formal Education	201	7	24	2	234	7.58
Lower Primary	588	71	220	37	916	29.67
Upper Primary	946	73	197	35	1251	40.53
Secondary	340	36	60	8	444	14.38
Higher Secondary	109	15	18	2	144	4.66
Graduate	79	4	3	0	86	2.79
Post-Graduate	12	0	0	0	12	0.39
Others/ Professional	0	0	0	0	0	0
Total	2275	206	522	84	3087	100

Source: Field Survey.

5 Lower primary here means: Class 1 to 5th Standard, Upper Primary: Class 6 to 8th Standard, Secondary: Class 9 to 10th Standard, Higher Secondary: Class 11 to 12th Standard, No Education means members does taken any formal Education

Figure-7.4. Education level of Selected SHG members in Barpeta District.



Source: Table-7.3.

7.4. Loaning Performance:

In the provision of microfinance, the provision of 'credit' or 'loans' is the main factor/ provision and the entire performance of the microfinance sector that we are witnessing today, is only by dint of 'loans' or 'credit' service. As such, success of microfinance programmes is strongly relying to a greater extent on the supply or flow of loans in terms of quantum of amount, frequency of loans, affordability of cost of loans etc. Again, the SHGs can initiate internal lending from its groups' savings only after 2-3 months of regular savings by the group members. These loans are small in quantity and used mostly to meet consumption needs, emergency needs like medical treatment, social ceremonies, etc. (Feroze & Chauhan, 2011), and is insufficient to cope with the growing deeds of the SHGs. Thus, needs for external financial assistance arises and SHGs after passing a certain period of time ranges from 2 to 6 months[6] in average, from its formation and in the practice of group savings and lending, become eligible for credit linkage and for loans from banks or from their intermediaries NGOs or MFIs. As huge regional and states disparities are noticed in our

6 The eligible period to obtained external loans or bank credit/loans is not uniformly followed, and it is varying from place to place and again among the NGOs or MFIs, who deals in microfinance in our country. But, it is generally ranges from 2 to 6 months periods in average.

country as regard micro-credit services to the SHGs, in terms of amount and frequency of credit and that discriminated in the results or outcome of microfinance services in the country (Roy, 2014). The loaning performance and their discriminating figures can be well understood from the report of 'Status of Microfinance in India 2011-12' of NABARD. The report reveals that, the average amount of credit disbursed to the SHGs in India in average was ₹ 144046 during the year 2012, which was in the highest priority state of Uttarakhandof ₹148155, in the same period. But, the average credit disbursed to the SHGs in Assam during the same period was only ₹ 66925 per SHG, which is much lower than the national average and stands to 46.46 percent of the national average amount of loan to SHGs. Such, huge disparities ultimately affect in the performance of SHG and why the performance and position of SHGs is comparatively poor in the NER (North East Region). Again, among the NE states[7] , the average of amount credit disbursed in 2011-12, to the SHGs in Arunachal Pradesh was ₹ 121508; to the SHGs in Manipur was ₹ 65560; in Meghalaya was ₹ 70799; in Mizoram was ₹ 120035; in Nagaland was ₹ 72075; in Sikkim was ₹ 106995 and in Tripura was ₹ 121614. So, average amount of loans disbursed to the SHGs in Assam is also comparatively less than that from other states of the regions. But, it is to be mentioned here that, of the total SHGs disbursed credit in the NE region (i.e., 51003), 54.92 percent of those SHGs only belong to the State of Assam and the rest is spread-over among the other states of the region. Thus, for having maximum numbers of SHGs in Assam, that has reduced the average amount of loan size of SHGs. Again, the average credit disbursed to the SHGs in Barpeta District of Assam in 2011-12, was a bit higher than, that of Assam's average and was ₹ 91173. The average amount of credit disbursed to the

7 The average credit disbursed to SHGs in each of the states of NER is calculated from the NABARD report, Status of Microfinance in India, of 2011-12, page no. 38.

SHGs in Assam and in Barpeta District along with the selected intermediaries in the district during the period of study is given below:

Table-7.4. Average Amount of Credit Disbursed to SHGs, from 2007-08 to 2011-12.

Sl. No./ Models	Particulars	Average Credit Disbursed to SHGs, from 2007-08 to 2011-12. Amount (₹)
1.	To the SHGs in Assam[8]	₹ 59,623 p.a.
2.	To the SHGs in Barpeta District[9]:	₹ 45,615 p.a.
Under SHG Model-II	To the SHGs under Blocks Intermediaries	₹ 35,040 p.a
	To the SHGs under ASOMI Intermediary	₹ 73,325 p.a.
Under SHG Model-III	To the SHGs under Bandhan Intermediary	₹ 1,44,278 p.a.
	To the SHGs under RGVN Intermediary	₹ 46,200 p.a.

Source: 1. Status of Microfinance in India-2007-08 to 2011-12.
2. Field Survey.

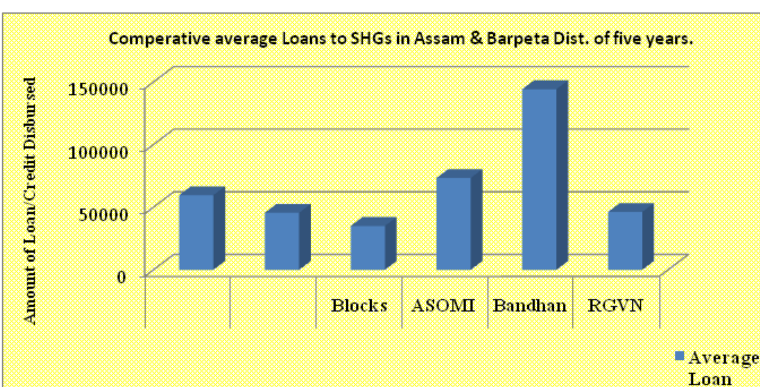
It can be observed from the table that, the average credit/loan disbursed to the SHGs in the district is less than that of Assam average amount of loans given to the SHGs during the period of study. But, SHGs under model-II had been provided with very small amount of loans, which is the smallest average amount of

8 The amount of Average Credit Disbursed to the SHGs in Assam has been obtained from the NABARD reports of 'Status of Microfinance in India', from 2007-08 to 2011-12.

9 The Average Amount of Credit Disbursed to the SHGs in the Barpeta District is the average of Sample SHGs for this study, which 260 SHGs, Covering Blocks, ASOMI, Bandhan& RGVN's SHGs in the district

loan in comparison to the other SHGs under model-III in the district as well as below the State and District average. Again, SHGs under the MFI-Bandhan have been availed maximum amount of average credit to their SHGs, followed by SHGs under MFI-ASOMI and then by RGVN. Thus, SHGs under model-III are given more amount of credit, which in average was ₹ 87934 during the period of study and the same under model-II was only ₹ 35040. So, a huge disparity in terms of flow of credit and service is found between these two models in the district, further, SHGs under model-III got more than double the average amount of credit, than SHGs under model-II, which ultimately effects on the performance factors of the SHGs under each model. During the period of survey, the SHGs also reported about their willingness towards working with SHGs, but limited credit/loan assistance actually paralyzed their performance and spirits and a huge percentage of SHGs are found as defunct in the district, that mainly under model-II. The relative loaning performance can also be observed from following diagrammatic presentation:

Figure-7.5. Comparative Average Loans Disbursed to the SHGs, from 2007-08 to 2011-12:



Source: Table-7.4.

So, it is model-III, which is performing better in extending loans to the SHGs in the district during the period of study than model-II, which is found comparatively in poor performance in loaning to their SHGs during the same period.

7.4.a. Analysis of Frequency of Loans Obtained by SHGs:

The 'loaning performance' also depends on the frequency or times of loans delivered by the intermediaries to their SHGs, so an effort was made during the period of study to know about the frequency of loans or how many times an SHG obtained loan from their intermediaries during the period from 2007-08 to 2011-12, in the district. The finding of the same reveals that, nearly half of the total SHGs under model-II have obtained loan once during the periods of five years under study, which is 47.25 percent of total SHG and very close to that 41.74 percent SHGs have obtained loans twice in the whole period and only 11.01 percent SHGs have obtained loans for three times during the same period. Thus, loan service to the SHGs under model-II is not impressive and most of the SHGs are suffering from loan shortage, which is the life blood for the survival of the SHG. Again, the same under model-III is comparatively better as majority of the total SHGs under this model have obtained five loans (i.e., 38.10 percent of total SHGs under model-III), that means yearly one loan in average, where none of the SHGs under model-II have obtained more than three loans. Further, 4.76 percent SHGs have reported about obtaining more than five loans during the periods of five years under study. Only 14.29 percent of the total samples SHGs under model-III are with single loan and rest fall in the two to four times loans obtained category in the district. The detail about the frequency of loan position with model-wise break-up has been presented in the following table:

Table-7.5:Frequency of Loan Obtained by the SHGs from their Intermediaries during 1-4-07 to 31-3-12.

SHG Models & SHG Intermediaries		Frequency/Times of Loan obtained by SHGs of Barpeta District						Total SHG
		1 Times	2 Times	3 Times	4 Times	5 Times	More	
SHG Model-II	Block[10]	103	91	24	0	0	0	218
	%	47.25	41.74	11.01	0	0	0	100
SHG Model-III	ASOMI	0	2	2	4	11	0	19
	Bandhan	5	3	3	0	5	2	18
	RGVN	1	1	2	1	0	0	5
	Total	6	6	7	5	16	2	42
	%	14.29	14.29	16.67	11.90	38.10	4.76	100
Total (Model-II & III)		109	97	31	5	16	2	260
% (Model-II & III)		41.92	37.31	11.92	1.92	6.15	0.78	100

Source: Field Survey.

10 Information under Blocks SHGs in this table and all the further tables used in this chapter as well as in other chapter in this study, comprises 11 Development Blocks of Barpeta District, namely- Barpeta, Chenga, GumaPhulbari, Sarukhetri, Mandia, Gobardhana, PakaBetbari, Bhabanipur, Chakchaka, Rupshi, Bajali

Thus, it is apparent that loans are more frequently disbursed to the SHGs under model-III than under model-II in the district and it can be said that, the SHG under model-III had obtained loans more frequently than SHGs under model-II, which is very important for the sustainability of SHGs. Again, as the velocity of loans under model-III is more than that of model-II, it also recognizes the expertise, quality management, efficiency of the SHGs by the support system of the intermediaries under model-III.

7.4.b. Analyzing Demand for and Supply of Loans to SHGs:

The amount of loan provided to the SHGs in Barpeta District during the period of study from 2007-08 to 2011-12, in an average was ₹ 45,615 p.a. and their demand for loans in the same period in an average was ₹ 72,793 p.a. Thus, a healthy gap of ₹ 27,178 p.a. in average, were found between demand for and amount of loan obtained by the SHGs in the District. The model-wise comparative average amount of 'loans demanded for' and 'loans obtained' during the period of study is given in the following table to evaluate the loaning performance in Barpeta District.

Table-7.6. Average Amount Loan Demand for Obtained by SHGs, from 2007-08 to 2011-12.

Sl. No./ Models	Particulars	Average Amount Loans to the SHGs, from 2007-08 to 2011-12.		
		Loans Demanded (X):Amount (₹)	Loans Obtained (Y):Amount (₹)	Ratio: X/Y
1	The SHGs[11] in Assam :	NA	₹ 59,623 p.a	----
2	The SHGs[12] in Barpeta District	₹ 72,973 p.a.	₹ 45,615 p.a.	1.60:1
Under Model-II	The SHGs under Blocks Intermediaries:	₹ 58,546 p.a.	₹ 35,040 p.a.	1.67:1
Under Model-III	The SHGs under ASOMI Intermediary	₹ 1,04,737 p.a.	₹ 73,325 p.a.	1.42:1
	The SHGs under Bandhan Intermediary	₹ 2,19,444 p.a.	₹ 1,44,278 p.a	1.52:1
	The SHGs under RGVN Intermediary:	₹ 54,000 p.a	₹ 46,200 p.a.	1.17:1

Source: 1. Status of Microfinance in India-2007-08 to 2011-12. Field Survey.

11 The amount of Average Credit Disbursed to the SHGs in Assam has been obtained from the NABARD reports of 'Status of Microfinance in India', from 2007-08 to 2011-12.

12 The Average Amount of Credit Disbursed to the SHGs in the Barpeta District is the average of Sample SHGs for this study, which 260 SHGs, Covering Blocks, ASOMI, Bandhan& RGVN's SHGs in the distric

So, it is depicted in the table that, there is much gap between the average amount of loans demanded for and that obtained by the SHGs in the district, the gap amount among the blocks SHGs under model-II was ₹ 23,506 p.a. during the period of study and the same among the SHGs under model-III was ₹ 38,126 p.a. thus, despite of providing comparatively higher average amount of loans annually, during the period of study to the SHGs under model-III, the gap of loans demanded remains high among the SHGs under model-III. Hence, the question arises is the amount of loans obtained by the SHGs during the period are related to the amount of loans demanded for. To know the answer a correlation study has been made to show the relationship if any, between 'Loans demanded (in five years)' and 'Loans obtained (in five years)', by the SHGs in the District with help of Karl Pearson's Co-efficient of Correlation (r).

Karl Pearson's Co-efficient of Correlation:

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x2 * \sum y2}}$$

Where, $x = (X - \overline{X})$, $y = (Y - \overline{Y})$,

$\overline{X}$ = Arithmetic Mean of X, (Amount of loan demanded)

$\overline{Y}$ = Arithmetic Mean of Y, (Amount of loan obtained)

r = coefficient of correlation between X and Y,

The result correlation comes, $r_{xy} = 0.8934$

So, the variables are highly positively correlated, and the amount of loans obtained by the SHGs in the district is highly depended on their loans demands or we can say that, more amount of loan demanded by the SHGs helps in obtaining more amount of loans.

Again, whether the same condition exits to SHGs, irrespective to the SHG models in the district or not? To know that, we can take help of model-wise correlation study. As such, SHG model-wise correlation study has been made as follow:

Correlation among the amount of Loans demanded and Loans Obtained by the SHGs under model-II: Taking the amount of loans demanded in five years by SHGs as: x, and that of loans obtained in the same period as: y, the result of correlation comes to, r_{xy}= 0.7600 and the result of the same under model-III comes to, r_{xy}= 0.8602, in the same period under study. So, from the obtained results of 'r' it can be said the variables are more positively correlated under model-III, than model-II in the district during the period of study.

7.4.c. Nature of Loan Repayment:

The acceptability of loans or credit by the beneficiaries and the recovery of loans to a greater extent depend upon its flexibility and procedures, where loan re-payment system or modes is a vital factor, because, it helps the SHG members for timely payment of loans. Because, the SHG members in general are the people who are in acute needs of money for their various urgent needs. So, they can't restore money for long and a re-payment system of long tenure ultimately leads them to defaulter. So, during the course of field study an effort was made to know about the loan re-payment modes of the SHGs and the details about the same are presented in the following table:

Table-7.7. Modes/Tenure of Loan Re-payment by the SHGs in Barpeta District of Assa

SHG Models & SHG Intermediaries		Modes of Loan Re-Payment/Installment					Total SHG
		Weekly	Fortnightly	Monthly	Quarterly	Otherwise	
SHG Model-II	Block	0	0	212	0	6	218
	%	0	0	97.25	0	2.75	100
SHG Model-III	ASOMI	19	0	0	0	0	19
	Bandhan	18	0	0	0	0	18
	RGVN	1	2	2	0	0	5
	Total	38	2	2	0	0	42
	%	90.48	4.76	4.76	0	0	100

Source: Field Survey.

It is clear from the table that, SHG under model-II re-pay its loan mostly on monthly installment basis and only 2.75 percent SHGs, which paid loans other-wise are actually the defaulter SHGs in regular payments and for them re-payment are made on the basis of understanding between SHGs and the Banks. But the re-payment system under model-III is different and most of the SHGs re-pay on weekly installment, leaving a small percentage of SHGs who pay either fortnightly or monthly. No such SHGs are found in the district that returned loan on quarterly basis under both the SHG models in the district.

7.4.d. Loan Repayment Performance:

Repayment of loans is another important criterion for evaluation of performance of any programme or any credit delivery models. Microfinance is considered as champion in this regard due to its impressive repayment history across the globe. In case of group lending, the responsibility of repayment lies on the whole groups, thus repayment rates are very high (Feroze & Chauhan, 2011).The earlier studies on loan repayment performance revealed that more than 80 percent recovery of external loans, further reported that the repayment performance of SHGs under banks (i.e., under model-II) was higher as to 90.80 percent, compared to NGOs/MFIs SHGs up to 82.10 (i.e., under model-III) across the different ages, [(Datta & Raman, 2001)(Mishra, 2002)]. Again, studies in the latter periods reported even higher repayment of loans and that found quite satisfactory, as more than 96 percent of SHG households repaid their loans on time in all India level and that was highest in Andhra Pradesh as to 100 percent, followed by Assam 99.9 percent, in Karnataka 99.8 percent, in Maharashtra 96.9 percent, in Uttar Pradesh 92.9 percent and in Odisha 88.7 percent, (Ghosh, 2012). In Barpeta District, the repayment rate of loans of the SHGs are also very high, as the rates of total loans recovered in the district was 90.61 percent in 2007-08 and that gradually improved year after year to 92.25 percent in 2008-09; 93.16 percent in 2009-10;

97.11 percent in 2010-11 and 96.56 percent in 2011-12 under both the models. Again, the repayment rates of SHGs under ASOMI, Bandhan and RGVN, i.e., under model-III is found more than SHGs under model-II in the district during the period of study, that in average stands to 98.67 percent [13] , as reported by the intermediaries of district. The same under model-II as reported by the banks and block officials, is around 76 percent in the district. Thus, in loans recovery performance, model-III stands superior to model-II, and in some cases the recovery rates recorded to 100 percent as reported by the intermediary's deals in model-III.

7.5. Income Generating Activities Performance:

Microfinance is considered as an effective tool for generating income by means of self-employment of the poor and rural people (Yunus & Jolis, 2007). So, income generation by following various activities, where the rural people are skilled and with their locally available resources, either individually or in groups is the ultimate intentions behind the SHG system of microfinance and to strengthen their economic conditions to release them from the curse of poverty (Nirmala, 2006). Poverty, on the other hand, stands as bottleneck in the development process, thus eradication of poverty becomes the major issue and challenge for the country, and microfinance programmes are witnessing excellent performance in eradicating poverty of millions of people in the globe by their hard work and by means of employment and income generation from the locally available raw-materials or resources for sustainable development (Lalitha, 2011). Thus, success of microfinance programmes does not only rely on cheap/subsidized or easy flow of credit/loans to the people, but also lies with how effectively that can be utilized in productive manner, so that they can stand by their own and

13 The loans recovery or repayment rates information of SHG models of the district have been obtained on consultation with intermediaries of microfinance which includes ASOMI, Bandhan, RGVN Branch managers, block officials, dealing bank officials etc. and as per their records and assessment the above repayments rates were found in the district.

earn lasting and sustained income for their livelihood, and only effective income generating avenues can mitigate this gap of haves and haven'ts and can fulfill the purpose. As such, from the initiation of microfinance programme, it's primary focus was on to develop suitable income generating means, considering qualities/skills of people, resources, infrastructures etc. and for sustainability, continuous training and follow-up were also made, because success of microfinance programme deeply relies on giving access to the income generating activities/avenues, which is very important aspect of any poverty eradication programme.

Keeping in view, efforts were made to know about the income generating activities that are followed by the SHGs in Barpeta District as their income generation source. It is found that, SHGs in the district are following weaving, farming and other seasonal activities and also multiple activities etc. as suitable for them. Thus, the SHGs are being grouped as per the nature of activities followed by them as principal activity and further sub-grouping of such activities.

The principal income generating activities means the main activities followed by the SHG (or the activity mentioned at time of formation of Group) for income generation of the group and on classification of SHGs of the district it is found that SHGs are mostly engaged in only weaving activity, i.e., upto 41.15 percent of the total. Next to that is 'Multiple Activities' which stand up to 26.15 percent and then only in farming i.e., up to 12.69 percent, and these are the three main sources of income generation activities in the district. Apart from these, some other activities are also followed by some of the SHGs of the district but their percentage is very poor as given in the following table.

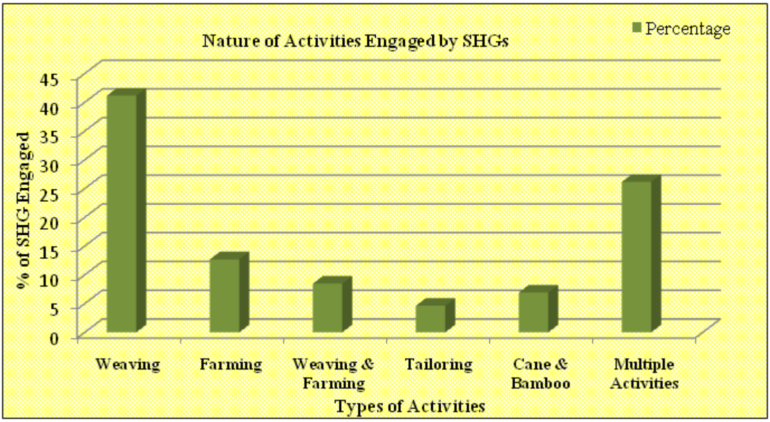
Table-7.8: Classification of SHG on the basis of Nature of Principal Income Generating Activities in the District:

SHG Models & Intermediaries		Nature of Activities Engaged by SHGs						Total SHG
		Weaving	Farming	Weaving & Farming	Tailoring	Cane & Bamboo	Multiple Activities	
SHG Model-II	Block	103	31	18	12	18	36	218
	%	47.25	14.22	8.26	5.50	8.26	16.51	100
SHG Model-III	ASOMI	2	0	2	0	0	14	19
	Bandhan	2	0	1	0	0	15	18
	RGVN	0	1	1	0	0	3	5
	Total	4	2	4	0	0	32	42
	%	9.5	4.75	9.52	0	0	76.19	100
Total SGS (Model-II & III)		107	33	22	12	18	68	260
% (Model-II & III)		41.15	12.69	8.46	4.62	6.92	26.15	100

Source: Field Survey.

It is clear from the analytical table that, SHGs under model-II are mostly engaged in weaving activity, as weaving is their traditional activity for most of the woman members and they are also skilled in that, followed by farming and multiple activities (Debnath & Shil, 2013). But, SHG under model-III, i.e., SHGs of ASOMI, Bandhan and RGVN are found more active in selection of activities and they preferred convenient/ seasonal/skill-based activities as such 73.68, 83.33 and 60 percent SHGs respectively, are following multiple activities and also reported as more benefited from that, rather relying on an activity and where only 16.51 percent SHGs under model-II are in practice of multiple activities. So, the case is different with the SHGs under model-II as 47.25 percent SHGs of the blocks are only engaged in weaving activity, whereas only 10.53 and 11.11 percent respectively of the SHGs of ASOMI and Bandhan are engaged only in weaving activity. Thus, in selecting activities, the SHGs of Blocks are doing reverse to what the SHGs of ASOMI, Bandhan and RGVN (i.e., under model-III) are doing and are found more benefited. The activity-wise SHGs engagement position in the district is presented with help of following diagram:

Figure-7.6. Grouping of SHG as per Principal Income Generating Activities of Barpeta District:



Source: Table-7.8.

As 'Weaving', 'Multiple Activities' and 'Farming' are established as three main income generating activities where SHGs are mostly engaged in the district, hence, they are again sub-grouped to find the details about those activities and the result found are as follows:

i. **Sub-Grouping of SHGs Engaged only in Weaving Activity:** the SHGs which engaged only in Weaving activities (i.e., 107 SHGs under both the models) are again sub-grouped and found that SHGs of this category are mostly making various cloth items, like, 'Chador, Mekhala, Gamosa, Woolen Chador, Woolen Cloth, Woolen Scarf and these SHGs occupied for 35.51 percent of total SHGs engaged in weaving activity. Their further classification is given in the following table to have details inside of this activity:

So, it is revealed from the above table that, SHGs under both the models mostly prepare various cloth items based on

Table-7.9: Classification of SHG on the basis of various Weaving Activities followed by them in Barpeta District of Assam.

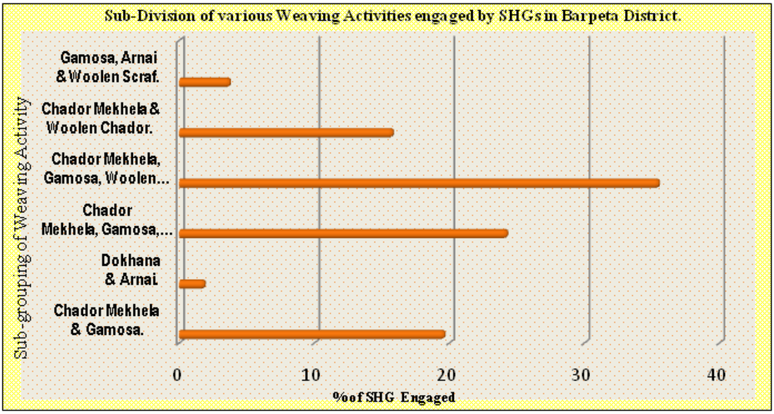
SHG Models & Intermediaries		Various Weaving Activity followed by SHGs in the District						Total SHG engaged in only Weaving Activities.
		Chador Mekhela &Gamosa	Dokhana &Arnai.	Chador Mekhela, Gamosa, Woolen Chador.	Chador Mekhela, Gamosa, Woolen Chador, Woolen Cloth, Woolen Scarf	Chador Mekhela& Woolen Chador.	Gamosa, Arnai & Woolen Scraf.	
SHG Model-II	Block	20	2	24	36	17	4	103
	%	19.42	1.94	23.30	34.95	16.50	3.88	100
SHG Model-III	ASOMI	1	0	1	0	0	0	2
	Bandhan	0	0	0	2	0	0	2
	Total[14]	1	0	1	2	0	0	4
	%	25	0	25	50	0	0	100
Total SGS (Model-II & III)		21	2	25	38	17	4	107
% (Model-II & III)		19.63	1.87	24.27	35.51	15.8	3.74	100

Source: Field Survey.

14 None of the SHGs under RGVN are found as engaged in the weaving activity during the period of study in the Barpeta District, so this total comprises the SHGs of ASOMI &Bandhan only.

the season, needs and demand of customers, and also on the expertise of the producers. The percentage of SHGs engaged in various sub-groups of weaving activities given in the above table is presented with the help of following diagram:

Figure-7.7. Showing Grouping of Weaving Activities followed by SHGs of Barpeta District:



Source: Table-7.9.

The further classification of SHGs on the basis of their weaving cloth items, it is found that most of the SHG are making various cloth items like Chador, Mekhela, Gamosa, Woolen Chador, Woolen Cloth, Woolen Scarf and SHGs that are engaged in making these items account for 35.51 percent of the total SHGs who are engaged in only weaving activity and accordingly further classification/groupings are also given with their proportions of SHG in the above table and diagram. Further reported that, SHG which engaged in making various cloth items are comparatively more benefited and found more active as they can work for the whole year and can take the benefits of all seasonal items, as such most of the SHGs in the district prepare various cloth items rather relying on one or two cloth items.

i. **Sub-Grouping of SHGs Engaged in Multiple Activities:** SHGs engaged in multiple activities means that the groups are not restricted to production or making of only a certain type of items, rather engaged in various activities which proved more beneficial and convenient for them. Though, the groups were registered with some specific activity to perform at the time of formation, but later on, diverted to skilled based, profitable, and market demand oriented products. SHGs under model-III in the district are found more interested and engaged in this category, than SHG under model-II during the period of study. During field survey, efforts were made to know the details of the activities followed by the SHGs in this category and found that, of the total sample SHG, 68 SHGs are engaged in Multiple Activities, which is 26.15 percent of the total sample SHG under both the models and that under model-II occupied 47.25 percent of their SHG and under model-III occupied upto 76.19 percent of their SHG. The further classification and break-ups about multiple activities followed by SHG in the district are presented in Table-7.10.

Table-7.10. Classification of SHGs undertaking Multiple Activities as Principal Activity in Barpeta District of Assam.

SHG Models & Intermediaries		Multiple Principal Activities followed by SHGs					
		Weaving, Poultry Farming, Tailoring	Poultry Farming, Paddy Farming, Veg. Cultivation	Muri (Puff-rice) Making, Dust Masala, Rice Processing	Cane & Bamboo, Wood work, Bags & Carpets	Weaving, Farming, Tailoring, Veg. Cultivation, Grocery Shop, Pitha (Cake) & Others.	Total SHG Engaged in Multiple Principal Activities.
SHG Model-II	Block	17	6	1	2	10	36
	%	47.22	16.67	2.78	5.56	27.78	100
SHG Model-III	ASOMI	6	3	0	1	4	14
	Bandhan	2	5	1	1	6	15
	RGVN	0	1	0	0	2	3
	Total	8	9	1	2	12	32
	%	25	28.13	3.13	6.25	37.5	100
Total SGS (Model-II & III)		25	15	2	4	22	68
% (Model-II & III)		36.76	22.06	2.94	5.88	32.35	100

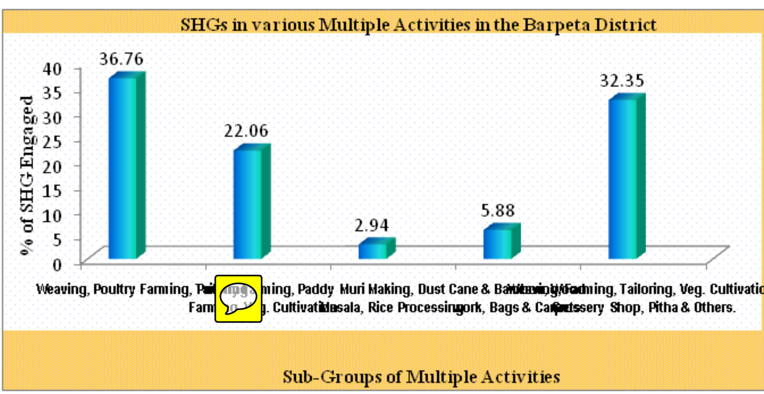
This is model-wise 100 percent SHGs i.e., 36 SHGs under model-II and 32 SHGs under model-III are the total SHGs under each models for the purpose of this calculation and that occupy 100 percent SHGs under each models in the district. Similarly other tables have been prepared and calculations have been made in this chapter.#100 percent SHGs under both the models in district.

Source: Field Survey.

It is revealed in the above table that, SHGs under multiple activities are mostly engaged and following 'weaving, poultry framing & tailoring' activities which stand at highest percentage of 36.76 percent among the other sub-grouping of multiple activities. The other Sub-grouping with their proportionate SHGs share-holdings is presented in the above table.

A diagrammatic presentation has also been made to show the various multiple activities and proportionate SHG holdings in the Barpeta District in figure-7.8.

Figure-7.8. Sub-Grouping of Multiple Activities and SHGs Engagement in the District:



Source: Table-7.10.

The SHGs holding in multiple activities in the district can be clearly understood from the above diagram, as up to 36.76 percent of the SHGs are engaged in multiple activities and are engaged in Weaving, Poultry farming and Tailoring, followed by 32.35 percent SHGs which are engaged in maximum numbers of multiple activity as in Weaving, Farming, Tailoring, Vegetable Cultivation, Grocery Shop, Pitha etc. other sub-grouping can also be seen from the above diagram. The advantages of following multiple activities is that, all members can show their talent as per their skills and capacity and all the members get something to do in the group activity, which developed their interest and the deep sense of belongingness to the groups and that also added to the group spirit and income.

i. **Sub-Grouping of SHG Engaged in only Farming Activity:** Farming activity is the third largest activity among the SHGs in the district, and all-together 33 SHGs are found in the district that are engaged only in farming activities and on their further sub-grouping, it is found that most of the SHGs under model-II, in this category, i.e., upto30.30 percent are engaged in the farming of Poultry, Piggery, Goatary, Fishery, Duckery farming. But the SHGs under model-III are engaged only in the farming of Dairy, Fishery and Poultry and none of the SHGs under this model is found to be engaged in any other types of framing activity in the district.

The further details and grouping of farming activities are given in table-7.11.

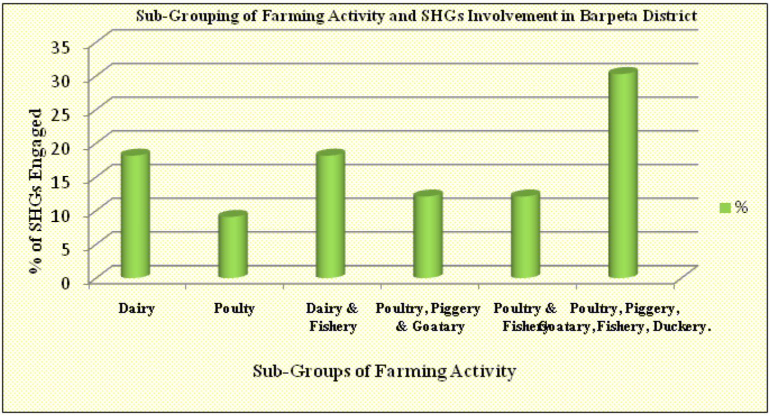
Table-7.11. Classification of SHG on the basis of various Farming activities in Barpeta District.

SHG Models & Intermediaries		Various Farming Activities followed by SHGs						Total SHGs
		Dairy	Poultry	Dairy & Fishery	Poultry, Piggery &Goatary	Poultry & Fishery	Poultry, Piggery,	Engaged in only Farming Activities
SHG Model-II	Block	6	3	5	4	3	10	31
	%	19.35	9.68	16.13	12.90	9.68	32.26	100
SHG Model-III	ASOMI	0	0	0	0	1	0	1
	RGVN	0	0	1	0	0	0	1
	Total	0	0	1	0	1	0	2
	%	0	0	50	0	50	0	100
Total SGS (Model-II & III)		6	3	6	4	4	10	33
% (Model-II & III)		18.18	9.09	18.18	12.12	12.12	30.30	100

Source: Field Survey.

Again, the position of various farming activities are presented by the following diagram which clearly depicts the grouping of farming activities and proportion of SHGs involved in each group in Barpeta district. It is revealed in the figure-7.9 that, SHGs are found more beneficial to be engaged in more numbers of farming activities rather relying on only one or two types of farming activity. It has been also reported that, doing that actually reduces the cost of foods and other materials needs in farming activities, as such groups are more concentrated on the multiple farming in the district.

Figure-7.9. Sub-Grouping of Farming Activity and SHGs Involvement in Barpeta District:



Source: Table-7.11.

It is to be mentioned that, Barpeta Road market in Barpeta District has become the hub for marketing of commodities and goods are supplied to the various part of Assam as well as in other parts of the country and this helps in the creation of demand for the products. Thus, the groups engaged in farming are found more earning groups in the district, but for farming, sufficient space in needed, hence this activity is popular basically among the SHGs in village areas in the district.

7.5.a. Analysing the Dependency Levels of SHG on SHGs Activities:

As the ultimate purpose behind the SHG method of microfinance is to develop the spirit of self-employment among the rural people by offering them financial assistance along with training on various income generating avenues. The reports and studies all over the world as well as in our country reveal about the success of microfnance programme in this respect and the success has mainly occured under the SHG models in India (Ghate, 2009). Thus, an effort was made during the field survey to know about the dependency levels of SHGs (i.e., SHG members as a whole) on the activities followed by the groups in the district and very contradictory result has came to light. Though the SHG members are engaged in the activities but they are yet to reach the satisfaction levels and majority groups reported their poor dependency on the SHG activity. The details of analysis of the dependency levels of the SHGs, which

Table-7.12. Dependency Levels of SHG on SHGs Activity in Barpeta District:

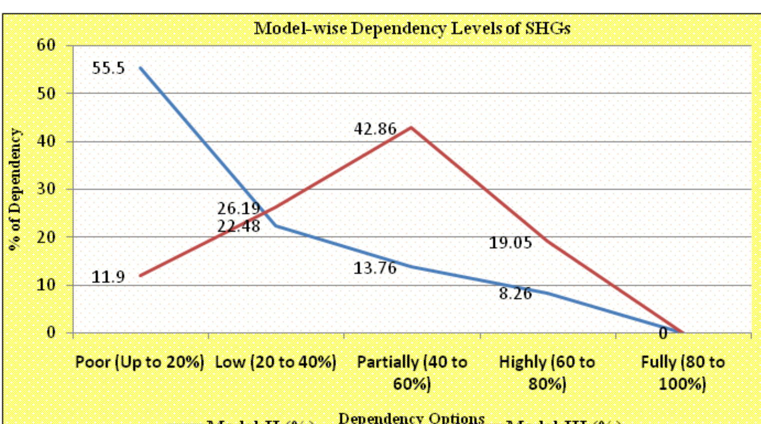
SHG Models & Intermediaries		Dependency Level of SHG on the SHGs Activities					Total SHG
		Poor (Up to 20%)	Low (20 to 40%)	Partially (40 to 60%)	Highly (60 to 80%)	Fully (80 to 100%)	
SHG Model-II	Block	121	49	30	18	0	218
	%	55.50	22.48	13.76	8.26	0	100
SHG Model-III	ASOMI	0	8	11	0	0	19
	Bandhan	4	1	5	8	0	18
	RGVN	1	2	2	0	0	5
	Total	5	11	18	8	0	42
	%	11.90	26.19	42.86	19.05	0	100
Total SGS (Model-II & III)		126	60	48	26	0	260
% (Model-II & III)		48.46	23.08	18.46	10	0	100

Source: Field Survey. Note: Here the responses towards dependency levels of SHG have been recorded group-wise on basis of comments/view of majority of members of each SHG.

obtained from the groups are presented in the following table:

From the above table, it is found that, 48.46 percent SHGs under both the models having poor dependency on the SHG activities in terms of earning derived from the same, again 23.08 percent and 18.46 percent SHG respectively, of total SHG expressed as their dependency as 'Low' and 'Partial' and only 10 percent SHGs were found with highly dependent on the SHGs activities. The model-wise analysis of the dependency levels of SHG on the SHGs activities in the district during the period of study is also obtained and the result expresses that, the overall dependency levels or satisfaction on the SHG activities under model-III is better than that of under model-II. Again, the overall dependency levels of the SHG under each of the models are presented in the following diagram. The red line in the diagram is the dependency line under model-III which is relatively in higher position than the dependency line under model-II (i.e., the line in blue colour), thus able to provide better services and that leads to more dependency of SHG members on the SHG activities.

Figure-7.10. Showing Dependency levels of SHGs Members on the SHG Activities in the District:



Source: Table-4.12.

7.6. Income Generation Performance[16] :

The success of any programme is best judged by performance or benefits that reaped from the same by the people on whom it was implemented and that, if considered, in terms of money it is the 'Income Generation' which actually determines a lot about the performance and achievements. Again, giving access to Income Generation is the primary motive of microfinance programme irrespective of place and people, especially to the poor and the deprived of the formal financial sector. Thus, 'Income generation' of the SHGs is a strong parameter to evaluate its performance. Again, income generation performance is also related to the nature and qualities of service provided under each of the SHG models. The information at the all India level revealed that, net household income per annum increased from ₹ 34786 during the pre-SHG situation to ₹ 47934 during the post-SHG situation. There is no such significant variation in the annual growth rate of household income across SHG models, with little variations in the base level of income from the lowest of ₹ 29019 under model-III to the highest of ₹ 36142 under model-II and this explain why SHG model-II becomes the predominant and most popular SHG-bank linkage model in India. As per NEAER (National Council of Applied Economic Research), 2008, report the annual income per household in Assam reported as ₹ 28004 and in Andhra Pradesh was ₹ 46467 the highest amount, with Coefficient of variation of 23.70 percent. Again, the same under model-I was ₹ 34789; under model-II was ₹ 36142 and under model-III was ₹ 29019, with an all India average of ₹ 34786 (Ghosh, 2012). In a study conducted by APMAS in collaboration with NABARD in

16 Obtaining information about the Incomes of SHGs was found complex, as members hesitate to express it freely for fear factor of tax or for other legal issues etc. so, effort were made by asking some direct and indirect questions to them about SHG income and respondent views best to their honesty are presented in this study. Again, the data of SHG income is present here on average monthly basis, because most of the SHGs record their information on monthly basis as like others activities, which are also recorded on monthly basis like Loan re-payment, Savings etc.

17 APMAS is a state level institution to strengthen the SHG movement, established in June 2001 with funding support from DFID through CARE India. APMAS offers Quality Assessment, Quality Enhancement and Research & Advocacy services on a free-for-service basis. APMAS

four district of Assam, namely Kokrajhar, Sibasagar, Sonitpur and Cachar reported ₹ 20,000 as average annual income of SHG and that stands monthly average income of ₹ 1,667 per group (Rao, 2009). Another, study has been conducted in the Lakhimpur district of Assam and reveals about the income of SHG members in pre and post SHG periods. It is mentioned that, before joining SHG 15.6 percent respondent had of no income and none of the respondent had income more than ₹ 2,000. But after joining SHG there is no SHG without any income and 6 percent of the respondents crossed their income above ₹ 2,000 and 138 out of 250 respondents have monthly income from ₹ 1000 to ₹ 2000 after joining SHG (Sarmah & Das, 2012). As such, efforts were made during the field survey to know about the Income Generation of SHGs in the Barpeta District and it is found that, the SHGs generating income can be divided into the following three sources:

i) Income from Sale of SHG/Group Products.

ii) Interest Income of SHG.

iii) Others/Speculative Income of SHG.

i. Income from Sale of SHG/Group Products: As a source of income generation the SHGs produce various types of products as per their skills and sale them either directly or indirectly for profit. So, groups should have some group activity, which is the primary source of income generation and existence, but during the survey, mixed response were found in this regard, as some groups are producing some products/goods in group-wise, some are producing individually as member-wise and some other as individually but as a part of group product. Hence, in some cases, some SHGs are found without any products and production and out of 260 samples SHG in the District, and 27

has an illustrious Board with Dr. P. Kotaiah, former Chairmen of NABARD as its Chairman.

Link: http://www.apmas.org/pdf/Status%20of%20SHG%20Federations%20in%20AP.pdf.

SHGs are found without any group's products and production. Again, the SHGs having group products, produce either directly or through its members is only considered in this study and that accumulated 233 SHGs of the sample. As per the information and records of SHG, the Average monthly sales of the SHGs in Barpeta District during the period of study was obtained of ₹ 3,274 per group, and they earn at the rate of 30 to 55 percent in average from the sale of their products, as a result, the average monthly income from sales comes to ₹ 1,536 per SHG under both the models. Again, monthly average sales and income from sales of the SHGs obtained under model-II and III during the period of study are presented in the following table:

Table-7.13. Monthly Average Sales and Incomes of SHGs in Barpeta District:

SHG Models & Intermediaries		Monthly Average Sales of SHGs	Monthly Average Income from Sales of SHGs
SHG Model-II	Block	2782	1314
SHG Model-III	ASOMI	2700	1207
	Bandhan	2339	1611
	RGVN	3340	[18] 1580
Average (Model-II & III)		3274	1536

Source: Field Survey.

The average monthly sales and income of the SHGs under model-II are relatively less than the average sales and income under both the models during the period of study as shown in the above table. But, the same under model-III is relatively better than that of model-II, except in case of intermediaries

18 The average monthly income from sales has been obtained by dividing total amount of sale of the sample SHGs by the Total number of SHGs under both the models and with the help of Excel-sheet.

ASOMI in the district, which comparatively performed poor among the intermediaries under both the models in the district. Thus, the SHGs under model-III are in better position in terms of sales and income from sales during the period of study.

ii. Interest Income of SHG: SHGs in its initial period of formation practice savings and lending among the members and that process gradually extends to the outsider as well. After certain periods of time, when SHGs are able to create some funds from their saving and interest from group lending, they provide loans to the outsiders with some higher rate of interest than inter lending and this practice is very common among the SHGs. In a study conducted by NABARD in collaboration with APMAS in four district of Assam mentioned that, groups are availed 35 to 37 percent loans among the group members and 70 to 80 percent to the outsiders or other than group members and earns good interest income from group fund lending (Rao, 2009). Thus, 'interest income' becomes very regular source of income generation of SHG and the entire sample SHGs in Barpeta District are also found active in generating income from lending of their group funds among the members as well as to out-siders. They charge 2 to 3 percent interest per month, when lending among the members or in groups and 3 to 5 percent when lends to out-siders. As such, it becomes the most secured and regular source of inflow of income and interestingly some groups were found during field survey which deals only with this activity and generating incomes, thus, most of them now have become 'Micro-Lenders' from 'Micro-Borrowers' with-in a span of few years. During the field study, efforts were made to know about their interest income by asking them about their group fund position and fund investment and rate of interest charged on those lending in indirect way[19] . It is found that, SHGs in district are earning ₹ 1,504 as average

19 This process was applied, because during the pilot survey it was found that SHG hesitate to provide information of their income and they conceal the information for fear of tax or other legal issues, they do not understood about academic purpose and all, as such those indirect question and approaches were applied to obtained information and found fruitful.

monthly Interest income, during the period of study. Again, the average monthly interest income of the SHGs under model-II stands at ₹ 1433 and the same under model-III, for the SHGs of ASOMI stands at ₹ 1458, of Bandhan ₹ 2350 and of RGVN ₹ 1360. Further, the SHGs under model-III as a whole earns ₹ 1,869 per month in average, thus, the interest income of the SHGs under model-III is better than under model-II in the district during the period of study. As the interest income depends on the group funds and group funds depend to a great extent on the amount of loans/credit they obtained from the intermediaries. So, there may exist some relationship between the ‘loans to size of group fund’ and ‘interest income of group’ which is the reflection of strength of group fund. So, to know the relationship between the ‘amounts of loans obtained by the SHGs during the periods’ and ‘monthly average interest income’ the correlation study will the worthy to interpret the relationship between these two variables.

Taking the variable amount of loan obtained as: x, and monthly average interest income as: y,

The value of correlation comes to, rxy= 0.1233, thus, the variables are slightly positively correlated among the SHGs in the District. Again, model-wise analysis of those variables revealed different results as value of ‘rxy’ under model-II is stand at 0.0310 and the same under model-III stands at 0.2257 thus, the variables are more positively correlated under model-III in the district during the period of study.

iii. Others/Speculative Income of SHGs: Apart from the above two regular sources of income, some SHGs in the District are also generating some incomes from other speculative or non-recurring types of activities like by way of Tea-Stall in Mela, making Traditional Pithas (cake), Hotel in during Puja season and in RasMela etc. and all together 42 no's of such SHGs were found during the field survey, which is 16 percent of the total sample SHG of the district and generating some income which in average comes to ₹ 213 per month to the SHGs who are engaged in speculative income source.

7.6.a. Monthly Average Total Income of SHG:

The total income of SHGs comprises the income from sale, interest income and speculative income (if any), accordingly total monthly average income of SHG in Barpeta district comes to ₹ 2,879. Although these total monthly average income looks small in present day context. But, most significant factor is that, none of those SHG members had any such earning/income generating source prior to the joining of SHG, as reported by them. As such, though the amount of income seems small even they are interested and hopeful as regard income, as they have got a way out of poverty and a source of income after maintaining their regular family affairs. The details about the SHGs income position according to SHG models are presented in the following table:

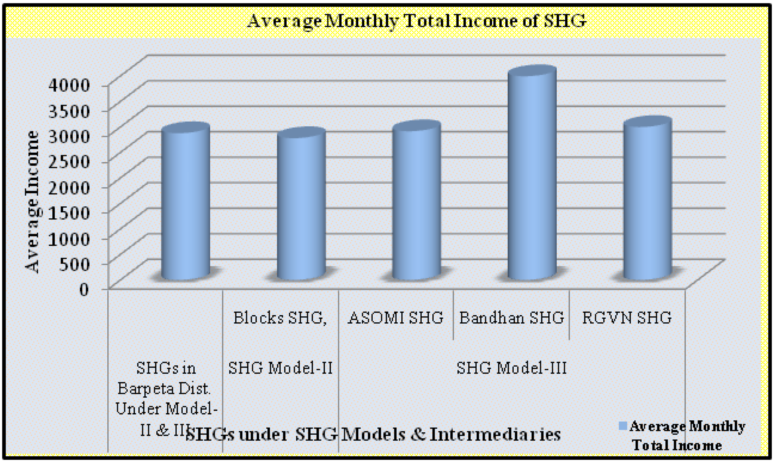
Table-7.14. Average Total Incomes of SHGs under the SHG Models in Barpeta District:

SHG Models & Intermediaries		Average Monthly Total Income of SHG	Average Yearly Total Income of SHG
SHG Model-II	Block	₹ 2781	₹ 33369
SHG Model-III	ASOMI	₹ 2917	₹ 35005
	Bandhan	₹ 3995	₹ 47933
	RGVN	₹ 3000	₹ 36000
	Average under Model-III	₹ 3304	₹ 39646
Total (Model-II & III)		₹ 2879	₹ 34547
Average Income Ratio: (Model-II/Model-III)		0.84:1	0.84:1

Source: Field Survey.

It appears from the table that, SHGs under model-II is comparatively earning less amount of income than SHGs under model-III in the district. Again, if we consider the same from SHGs intermediaries' point of view, than SHGs under the supervision of Blocks in the district have comparatively all lower amount of total average income of ₹ 2781 per month. The SHGs under model-III are earning more as ₹ 3304 per month per group in an average, which is even more than the total monthly average income under both the models in the district and accordingly the total yearly income of the SHGs can be seen in the same table. To find the performance of SHG income as per models in per rupee term, the average income ratio has been calculated, which comes to 0.84:1, thus SHGs under model-III earns more income than the SHGs under model-II in the district. A diagrammatic presentation is also made to show the relative position of SHG income:

Figure-7.11. Monthly Average Total Income of SHGs in Barpeta District:



Source: Tabel-7.14.

So, the SHGs under model-III of Bandhan has recorded highest amount of average monthly total income in the district followed by SHGs under RGVN and ASOMI. Again, average monthly total income of the SHGs under model-III of the district stand to ₹ 3304, which is just ₹ 2781 of the SHGs under Blocks intermediaries of the district falls under model-II, thus SHGs under model-III are relatively in better position and earned ₹ 523 more as average monthly income than SHGs under model-II in the district.

7.6.b. Grouping of SHG members according to the sources of income:

During field survey, efforts were made to know the engagement of SHG members in income generating sources and found that most of the members in the district are engaged in the SHG activities, as well as in some other than SHG activities in the district to have more income to satisfy their needs. The result found in this regard is given in table-7.15, and it is found that 75.93 percent members are engaged and earning from group activities and as well as from some personal activities,

Table-7.15. Grouping of SHG Members according to their Sources of Income:

SHG Models & Intermediaries		Grouping of SHG Members According to their Sources of Income:		
		Members Earning only from SHG Activities	Members Earning both from SHG & Personal Activities	Total SHG Members
SHG Model-II	Block	467	1808	2275
	%	20.53	79.47	100
SHG Model-III	ASOMI	62	144	206
	Bandhan	158	364	522
	RGVN	56	28	84
	Total	276	536	812
	%	33.99	66.01	100
Total SGS (Model-II & III)		743	2344	3087
% (Model-II & III)		24.07	75.93	100

Source: Field Survey.

the percentage is more impressive in case of members under model-II, which is 79.47 percent and that under model-III is 66.01 percent only. On enquiry about this discrimination it found that, SHGs under model-II in the district are not given proper care in terms of more income generating activities and other facilities as well, so the members have to think for external exposure, but that, under model-III is comparatively better owing to the frequent service and training and repeated counseling with the SHGs by their intermediaries and results in more confidence and reliability on the SHG activities.

7.7. Savings Performance:

Robert Vogel in 1984 called Savings “the forgotten half of rural finance”. For more than 20 years Dale W. Adams, his colleagues at Ohio State University and others have argued that there is large demand for financial savings in rural areas of developing countries and that savings is more crucial for microfinance clients than credit (Robinson, 2001).‘Although their incomes may be tiny or irregular, there are many times when poor people need sums of money that are bigger than what they have in hand. The only reliable and sustainable way that they can obtain these sums in needs is to build them, somehow or other, from their savings. So, the poor people have to save, and financial services for the poor are there to help them find ways to do so’(Rutherford, 2009).

Thrift or Saving is one of the important provisions of microfinance and under the SHG models, ‘saving’ has been given special attention as such members of the SHGs are advised from the initial period of its formation to have savings to grow the saving habits and that is popularly going on among the members as ‘Saving first then Credit’as the slogan of SHGs. Thus, members’ savings in case of SHG is the pre-conditions to avail the benefits of credit, especially under all the SHG models. Again, savings of members build multiple benefits, as it helps in the formation of group capital, generate interest income from group fund lending, develop members confidence and more importantly serve as ‘security’ in getting external loans/credit etc.

The SHG members are mostly women in our country and women are the better money managers and savers than men (Das R. , 2014), thus SHG is an encouraging platform for them to save. As per NABARD reports, a sum of 79.60 lakh SHGs have been saving linked with banks which stands at the total amount savings of ₹ 6551.41 crore and an average balance of ₹ 8,230 per SHG, by the end of March, 2012. But, huge regional disparities have been found and NER is at the bottom of the list, but Assam, among the NE states is comparatively in better position in savings. As, by the end of March 2012, a total of 276565 SHGs were savings linked with banks with the amount of savings of ₹ 9845.98 lakh, with an average savings of ₹ 3560 per SHG, which is much lower than the national average. But, the same accounts for 75.42 percent of total SHG savings linked and 64.56 percent of the total amount of savings with banks of NER. In a study conducted by NCAER (2008), it is mentioned that savings level also varies according to the SHG models in our country, as average household savings under model-I recorded ₹ 6714, under model-II ₹ 5984 and under model-III was ₹ 2984 (Ghosh, 2012).Thus, efforts were made during field survey to know the savings positions of SHG members in Barpeta District during the period of study. The SHG members under both the models (i.e., model-II & III) in district are found mostly with regular savings with their banks and SHGs under model-III also keep their group savings with banks and their MFI do not accept any saving from the members. As such, the average savings of the SHG members in the district obtained at the rate ₹ 49 per month, which is in the range of national average of ₹ 10 to 50 per month (Ghate, 2007), during the period of study and no such change in the rate of monthly contribution to group savings have been found during the period of study among the SHGs in the District. Of the total sample SHG (i.e., 260 SHG) 248 SHG are found in the practice of regular savings in the district and of the same 34.27 percent SHGs are saving at the rate of` 50 per month and other savings details are given in the following table:

Table-7.16. Showing Compulsory Group Savings Position of SHG in Barpeta District:

Sl. No	Monthly Savings limits of SHG (₹)	No's of SHG	No's of SHG Members	Total Amount of Savings (₹)
1.	10	8 (3.23)	92 (3.21)	920
2.	20	30 (12.10)	352 (12.27)	7040
3.	25	18 (7.26)	192 (6.69)	4800
4.	30	36 (14.52)	384 (13.39)	11520
5.	35	7 (2.82)	70 (2.44)	2450
6.	40	8 (3.23)	84 (2.93)	3360
7.	45	12 (4.84)	126 (4.39)	5670
8.	50	85 (34.27)	880 (30.68)	44000
9.	60	6 (2.42)	138 (4.81)	8280
10.	80	16 (6.45)	302 (10.53)	24160
11.	100	10 (4.03)	114 (3.97)	11400
12.	120	12 (4.84)	134 (4.67)	16080
Total		248 (100)	2868 (100)	139680
Average Monthly Savings per member 48.71 and per SHG 563				

Source: Field Survey.

It can observe from the table that, 82.26 percent of the samples SHGs are saving in the range of ₹10 to ₹ 50 per month and only 17.74 percent are saving in the range of ₹ 60 to ₹ 120 per month in the district during the period of study. Again, the members are saving at the uniform rates during the period of study and no changes have been found in their savings rates. Thus, the monthly average amount of savings comes to ₹563 per SHG and ₹ 6759 p.a. per SHG during the *period of study* in the district. A comparative SHG savings position in India, Assam and in Barpeta District is given in the following table:

Table-7.17. Showing Average Saving Performance of SHG at National, Assam, Barpeta District and other Intermediaries Level of the District:

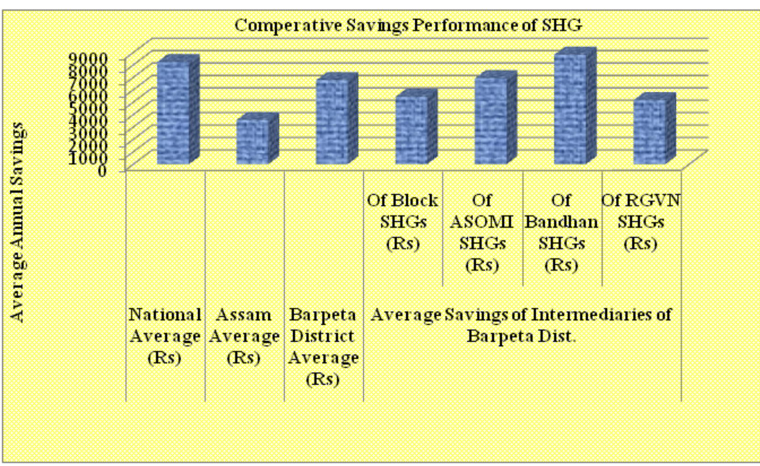
Particulars	Average Savings Performance of SHG during the year 2011-12:[21]						
	National Average (₹)	Assam Average (₹)	Barpeta District Average (₹) (Under Model-II & III)	Average Annual Savings of Intermediaries of Barpeta Dist. (₹)			
				Under SHG Model-II	Under SHG Model-III		
				Of Blocks SHGs (₹)	Of ASOMI SHGs (₹)	Of Bandhan SHGs (₹)	Of RGVN SHGs (₹)
Average Annual Savings per SHG	8230	3560	6759	5426	6922	8820	5162

Source: 1. Status of Micro-finance in India 2011-12
2. Field Survey

21 The comparative SHGs savings performance has shown only for the year 2011-12, as it is the last year of the period of study. Again, as the researcher found no change in the rate of monthly compulsory group savings of SHG members during field survey in the period of study, thus amount of saving is same for every year during the period of study of SHGs in the district

The saving performance of SHG of Assam as well as of Barpeta District is less than the national average as shown in the table. Again, the savings performance of SHGs under model-II is comparatively lower than the district average amount of savings of SHGs together under both the models, but the saving position of SHGs under model-III is comparatively better than of SHG under model-II, and among the SHGs under model-III, the SHGs under the management and service of Bandhan-MFI records the highest amount of annual average savings, followed by ASOMI and RGVN in the district during the period of study. The savings performance of SHG from national to district level has been present with the help of following diagram:

Figure-7.12.Comparative Saving Position of SHG at the National, Assam, Barpeta District and Intermediaries level:



Source: Table-7.17.

If we make model-wise comparison of SHG in terms of savings performance, it is found that SHGs under model-II in the district saved ₹ 5426 annually during the period of study and the same for the SHG under model-III saved ₹ 7526 annually during the same period under study. Thus, a healthy difference is found in saving performance among the SHGs in terms of Models in the district and model-III is found more active in building savings habit among its members by offering good management and income source.

7.7.a. Analyzing Compulsory Savings Keeping Provision of SHGs:

Along with savings of member, it is equally important, where the savings of the members will be kept, so that the members feel secure and confident about their savings and its custody to avoid misuse or theft, further provisions for secure savings helps in building the interest level of members towards savings. The importance of savings possession is in fact more important for the sustainability of saving habits among the microfinance clients and its importance can be well recognized from the following quotes:

'When my mother was still alive I used to give her a few shillings every day…. She looked after it for me really well, and every January there was always enough for the school fees. Now that she's dead I just haven't got anyone I can trust like that. It's much harder to make sure I've enough for the fees. We may not be able to send our youngest to school this year'.

-An East African women, quoted in Rutherford & others 1999, p.42 (Robinson, 2001).

Old people are very trustworthy. A lot of young people used to keep their money with their grandparents. The sad thing is, most grandparents and grown-ups have died. So it is a problem. Now most people have to buy chickens, transform them into goats and then later to cows which they afterwards have to sell to have a lump sum of money.

-A Ugandan vegetable farmer, quoted in Mutesasira& others 1999, p.9 (Robinson, 2001).

Thus, during the period of study, the researcher tried to identify about the savings keeping provision of SHG or where the saving of SHG members are being kept by the groups. It is found that, SHGs kept their members savings in multiple savings provisions in the district, but mainly kept in banks as well as invested as internal and external loans. The detailed analysis about the savings custody provisions of SHGs has been given in the following table:

Table-7.18. Classification of SHGs according to their Compulsory Savings Keeping Provision:

SHG Models & Intermediaries SHGs		Saving Keeping Provisions							Total SHG
		In Banks	In Post-office	In Chit-fund Co.'s	In With Group Head	In Bank & also Investing as Loan	In Personal A/C of Members	With Many Members of Group	
SHG Model-II	Block	34	2	0	4	163	3	2	208
	%	16.35	0.96	0	1.92	78.37	1.44	0.96	100
SHG Model-III	ASOMI	2	0	0	0	17	0	0	19
	Bandhan	2	0	0	4	7	2	1	16
	RGVN	2	0	0	0	3	0	0	5
	Total	6	0	0	4	27	2	1	40
	%	15	0	0	10	67.5	5	2.5	100
Total SGS (Model-II & III)		40	2	0	8	190	5	3	248
% (Model-II & III)		16.13	0.81	0	3.23	76.16	2.02	1.2	100

Source: Field Survey.

So, among the various provisions of savings for SHGs in the district, most of the SHG, i.e., 76.61 percent of the total, partly possesses their savings with banks and rest keeps in investing as loans for generating interest income. Next to that option, 16.13 percent SHGs keep their members savings with banks in their group Account, 3.23 percent SHGs still keep their savings with group head and 2.02 percent SHGs are found who keeps their savings in the personal Accounts of members. Again, if considered the same in terms of SHG models, 16.35 percent SHGs under model-II keeps their savings only with banks and the same under model-III is 15 percent, further 78.37 percent SHGs are partly savings with banks and as well as investing as loans as the most lucrative option, which is found among the SHGs in the district under model-II and the same under model-III stand to 67.5 percent. Thus, under both the models most of the SHGs accepted the options of 'In Banks and also Investing as loans' to retain their savings and this option established more suitable and more profitable among the SHGs in Barpeta District. The most significant point to be considered is that, SHG members perhaps have learnt about the savings mobilization, as such, they are more interested in investing their group savings rather retain the amount only in Banks or in other safe means to have only market rate of interest.

7.7.b. Analyzing other than Compulsory Savings[22] Provision of SHG Members:

As the SHG members are consistently contributing same amount for savings in the district during the period of study, thus, the researcher tried to know about their other-wise savings or the member's savings other than only group compulsory savings. It is found that, 27.7 percent SHG members also have savings other than compulsory group savings in the district and the rest

22 Here savings other than compulsory saving means the savings which the members are able to manage other-wise apart from their compulsory group saving contribution of members. As the members contributing consistently same amount in the group savings in the district during the period of study, as such to know their real financial condition, it was try to know whether the members able to manage some savings other-wise or not to get real scenario of the members financial position.

have only compulsory group savings under both the models. The detail analysis about of the savings provisions of members in the district is given in Table-7.19.

Table-7.19. Position and Provisions of Personal Savings of SHG Members Other than Compulsory Group Savings of Members:

SHG Models & Intermediaries of SHG		No's SHG			Members			Saving Provisions of SHG Members having Personal Savings in:					Total Members with Savings
		Total SHG	With Saving	Without Saving	Total Sample members	Members with Saving	Members without Saving	Banks	Post-office	Chit-fund Co.'s	Keep in Own	Bank & Post-office	
SHG Model-II	Block	218	134	84	2275	563	1212	78	311	62	64	48	563
	%	100	61.48	38.53	100	24.75	75.25	13.85	55.24	11.01	11.37	8.53	100
SHG Model-III	ASOMI	19	19	0	206	78	128	5	36	17	12	8	78
	Bandhan	18	15	3	522	162	360	29	76	22	24	11	162
	RGVN	5	5	0	84	52	32	7	13	12	17	3	52
	Total	42	39	3	812	292	520	41	125	51	53	22	292
	%	100	92.86	7.14	100	35.96	64.04	14.04	42.81	17.47	18.15	7.53	100
Total (Model-II & III)		260	176	84	3087	855	2232	199	436	133	177	70	855
% (Model-II & III)		100	67.69	32.31	100	27.7	72.3	13.92	5099	13.22	13.38	8.19	100

Source: Field Survey.

Note: Here with saving means other than compulsory savings.

Of the members, who are having saving other than compulsory group savings, mostly, i.e., 50.99 percent of them keep their savings in post office savings followed by 13.92 percent in bank, 13.68 percent keeps in hand, 13.22 with chit-fund companies and 8.19 percent in both banks as well as in post-offices. The members under model-II up to 24.75 percent have reported as having saving other-wise and the same under model-III have reported up to 35.96 percent. Members who have reported about savings other-wise under model-II mostly retain their savings in Post office, which stand to 55.24 percent, followed by 13.85 percent in Banks, 11.37 percent keeps in their hand, 11.01 percent in chit-fund Companies and 8.53 percent in banks as well as in post offices. Again, that under model-III as per their report 42.81 percent members are retain their savings in post-office, 18.15 percent keep in their own, 17.47 percent in various chit-funds Companies, 14.04 percent in banks and 7.53 percent members retain in banks as well as in post-offices in the district.

7.7.c. Analyzing the Willingness of Members towards Savings:

As majority SHG members, i.e., 72.30 percent do not have any saving provisions other than their only compulsory group savings, so efforts were made during the field survey to know about the willingness of members towards savings to know the reasons of such huge gap, and the results obtained have been presented in the following table. It reveals in the table that, 56.54 percent members are 'Willing' towards savings, as per their comments, and 35.38 percent members are 'Highly Willing' towards savings together under both the SHG models in the district.

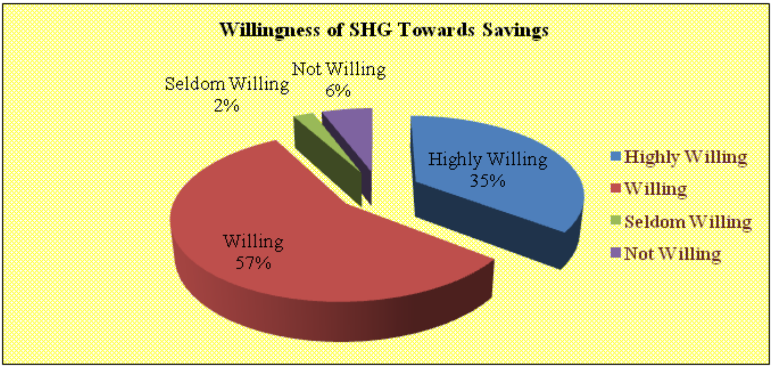
Table-7.20. Analyzing the willingness of Members towards Savings:

SHG Models & Intermediaries		Willingness of SHG towards Savings, in 4 Point Scale.				Total SHG
		Highly Willing	Willing	Seldom Willing	Not Willing	
SHG Model-II	Block	79	120	6	12	218
	%	36.24	55.05	2.75	5.50	100
SHG Model-III	ASOMI	5	13	0	0	19
	Bandhan	7	10	0	2	18
	RGVN	1	3	0	1	5
	Total	13	26	0	3	42
	%	30.95	61.90	0	7.14	100
Total SGS (Model-II & III)		92	147	6	15	260
% (Model-II & III)		35.38	56.54	2.31	5.77	100

Source: Field Survey.

Again, model-wise analysis of the same reveals that, 55.06 percent and 36.24 percent members under model-II are 'willing' and 'highly willing' respectively towards savings in the district. Further, the same under model-III records as 61.90 percent and 30.95 percent respectively of members who are 'willing' and 'highly willing' towards savings in the district during the period of study. Thus, it seems that, members under model-III are more willing towards savings than model-II in the district, which is the result of better performance in income generation and management. A diagrammatic presentation is also made to show the willingness of members in the district under both the SHG models as follows:

Figure-7.13.Willingness of SHGs towards Saving in Barpeta District:



Source: Table-7.20.

7.7.d. Analyzing the Reasons of Unwillingness of Members towards Savings:

Though small, but 5.77 percent members expressed their unwillingness towards savings, thus the reasons for their unwillingness were tried to know during the period of study and result found are present in the following table:

Table-7.21. Analyzing the Reasons of Not Willingness towards Savings of SHGs[23]:

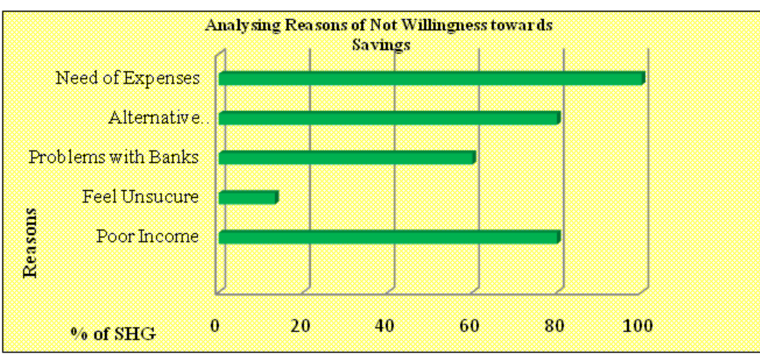
SHG Models & Intermediaries of SHGs		Reasons for Not-willingness towards Savings.					Total SHGs Not Willing for Saving
		Poor Income	Feel Unsecure	Problems with Banks	Alternative Investment	Need for Expenses	
SHG Model-II	Block	9	1	7	10	12	12
SHG Model-III	ASOMI	0	0	0	0	0	0
	Bandhan	2	0	2	1	2	2
	RGVN	1	1	0	1	1	1
Total SGS (Model-II & III)		12	2	9	12	15	15
% (Model-II & III)		80	13.33	60	80	100	100

Source: Field Survey.

23 Here only those SHGs have been considered who are not willing towards savings as per Table-7.20, to know the reasons behind their unwillingness towards savings. *The response % under model-II & III, have been calculated out of the total SHGs every time, as the respondents comments more than one reason for their unwillingness.

From the table it is found that, need for expenses stands as the main reason for their unwillingness towards savings followed by poor income level and alternative investment heads. The factor, dealing with banks, also stands as a reason for their unwillingness and more importantly 13.33 percent members comment as ‘feel unsecure’ which though small percentage but is a matter of worry. While saving is considered as the strong source to build confidence in the minds of the poor people, so how one could be insecure with savings? On consultation with those members, it came to light that, those reasons are purely personal of the members, like husbands and other family members’ interference with the savings amount and the persons who are really the savers get nothing as such they feel insecure. A diagrammatic presentation is also made to show the response of the members along with reasons of unwillingness towards savings as follows:

Figure-7.14. Reasons with Extent of Un-willingness of SHGs towards Savings.



Source: Table-7.21.

7.8. Financial Inclusion Performance:

Providing access to the financial service to the poor by linking them with banks has always been an important priority of the Government of India. According to the Committee on Financial Inclusion (Chairman: C. Rangarajan), 2008, "Financial inclusion defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". Again, Dr. K. C. Chakraborty, Deputy Governor, RBI, defines Financial inclusion as the "process of ensuring access to appropriate financial products and services needed by vulnerable groups at an affordable cost in a fair and transparent manner by mainstream institutional players" (Chakraborty).The essence of financial inclusion is trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no-frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life) etc. (Feroze&Chauhan, 2011). Mentionably, step towards 'financial inclusion' is yet to be a success story for India, though many efforts were made, like the nationalization of Commercial Banks, under the chairmanship of the then Prime minister Indira Gandhi (Basu, 2009), and many other initiatives such as priority sector lending (40 percent, RBI), (Karmakar, 2009), BCs (i. e., Business correspondents), post-office savings, new financial instruments, i.e., NFAs (no-frill accounts), General Credit Cards, Swarojgar Credit Card etc. from time to time to cope with financial inclusion for the deprived (i. e., Rural people) of formal financial system in our country (Deepti, 2011). Apart from that, our robust and resilient financial system that has grown over the years, today those host of institutions including 75,170 branches of commercial, mainly public sector banks across the country; 15,612 branches of 82 Regional Rural Banks; 14000 or so cooperative bank branches; 95626 outlets of Primary Agricultural Credit Cooperative societies etc. despite 50 percent of the country is unbanked (Report on Trend and Progress of Banking in India, 2010), (Joshi, 2011). Further, reports reveals that, only 40 percent of adult population have access to savings account, 10 percent to life insurance, 5.2 percent villages have a bank branch, 97.7 million small farmers are covered by farm credit (Srinivasan N. , 2009).

On the contrary, microfinance became an acceptable alternative to financial inclusion, especially for the rural population in the developing countries like ours, considering her rapid growth, in terms of members reached, income generation, savings, reducing vulnerability of poor, health, education empowerment and social status etc. (Naithani, 2001).Indian microfinance has continued growing rapidly towards the main objective of financial inclusion, larger of the two main models, SHG Bank linkage programme covered about 14 million poor households in March 2006 and provided indirect access to the banking system to another 14 million and under MFI model, served 7.3 million households, of which 3.2 million were very poor (Ghate, 2009). Thus, financial inclusion becomes an important determinant of performance evaluation; as such efforts were made to know the financial inclusion of SHG members in Barpeta district during the period of study and SHG members were asked about the opening of Accounts in Banks or in Post-offices as basic means of financial inclusion and following results were obtained:

(a). Of the total sample SHG members (i.e., 3087), 1166 members have opened Accounts either only in Bank, or in Post-Office or in both Bank as well as in Post-office and of them 58.75 percent members have Accounts only in Banks, 33.36 percent members have Accounts only in Post-Offices and the remaining 7.89 percent members are having Accounts in both Bank and in Post-Office in the district.

(b). Thus, the above performance accumulates 37.77 percent of SHGs (i.e., 1166 members are included out of total 3087 members) members are financially included in the district and that become possible only for the intervention of microfinance and for working with SHGs, as reported by the members. Again, the rate of inclusion seems highest among the SHG members under ASOMI and Bandhan, which is 57.77 and 46.55 percent respectively and the same is comparatively less in case of SHG members under the supervision of Blocks of Barpeta District.

Table-7.22. Financial Inclusion Performance of SHG Members in Barpeta District:

SHG Models & Intermediaries of SHG		Total SHG	Types of A/C in Banks				In Post-office	Types of A/C of Post-office		Members opening A/C both in Banks & Post-office	Of the Total members		
			Savings A/C	Recurring A/C	No-frill A/C	Daily Collection of Banks		Post-office Savings A/C	Post-office Recurring A/C		Total Sample member	Members Included	Members not included
SHG Model-II	Block	512	316	126	53	7	204	48	156	54	2275	770	1505
	%	100	61.72	26.56	10.35	1.37	100	23.53	76.47	7.01	100	33.85	66.15
SHG Model-III	ASOMI	54	37	7	10	0	52	11	41	13	206	119	87
	Bandhan	102	72	9	21	0	119	33	86	22	522	243	279
	RGVN	17	12	0	5	0	14	5	9	3	84	34	50
	Total	173	121	16	36	0	185	49	136	38	812	386	416
	%	100	69.94	9.25	20.18	0	100	26.94	73.51	9.60	100	48.77	51.23
Total (Model-II & III)		685	437	152	89	7	389	97	292	92	3087	1166	1921
% (Model-II & III)[24]		58.75	63.8	22.19	12.99	1.02	33.36	24.94	75.06	7.89	100	37.77	62.23

Source: Field Survey.

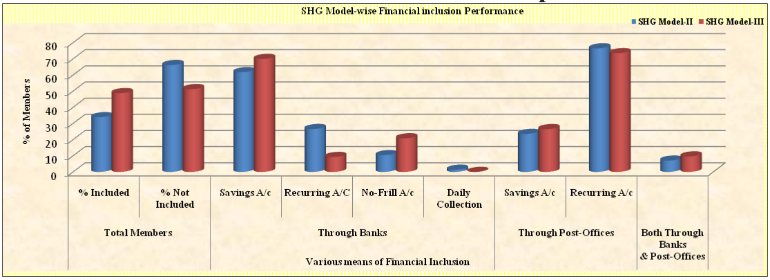
24 The figures marked in green colour are the percentage calculated out of the total membersincluded, to show the proportion of total financially included members in Banks, Post-offices and in both. * Again, the figures marked in blue colour are the percentage calculated out of the financially included members under each category i.e., in Banks, Post-offices and in both in Barpeta District during the period of study.

(c). If we consider the SHGs model-wise inclusion performance of members, it is found that, 33.85 percent of the members under model-II are included during the period of study and the same performance under model-III comes to 48.77 percent members are financially included, thus records 14.92 percent more inclusion performance of members under model-III in the district during the period of study.

(d). Again, 7.01 percent members under model-II are included for having Accounts in both the Banks as well as in Post-offices and that under model-III records 9.60 percent, which is also higher than of model-II, thus, recognizing more financial inclusion performance under model-III in the district.

(e). Further, the members having Accounts only in Banks under model-II, accounts for 61.72 percent Saving A/Cs, 26.56 percent Recurring A/Cs, 10.35 percent No-Frill A/Cs and 1.37 daily collection system of banks and those under model-III accounts for 69.94 percent of Savings A/Cs, 9.25 percent of Recurring A/Cs and 20.81 percent of No-frill accounts holders in the district. So, there exists difference in the selection of Accounts by the members under each of the models. A diagrammatic presentation has been made to show the model-wise performance of financial inclusion in the district:

Figure-7.15. SHG Model-wise Members Financial Inclusion Performance in Barpeta District:



Source: Table-7.22.

As another parameter of financial inclusion, the SHG members in the district were asked during field survey as regards obtaining of insurance services after joining in SHG and only 114 of the total members, i.e., only 3.7 percent members have obtained an insurance (i.e., life insurance) policy from the income of SHG. Further, as the percentage of members who obtained insurance facilities is meagre, so efforts were made to know their interest about insurance services. Surprisingly, 89.60 percent members found who are not interested to take insurance services in the district and only 3.7 percent members have obtained insurance service during the period of study, further details has been given in Table-7.23 below.

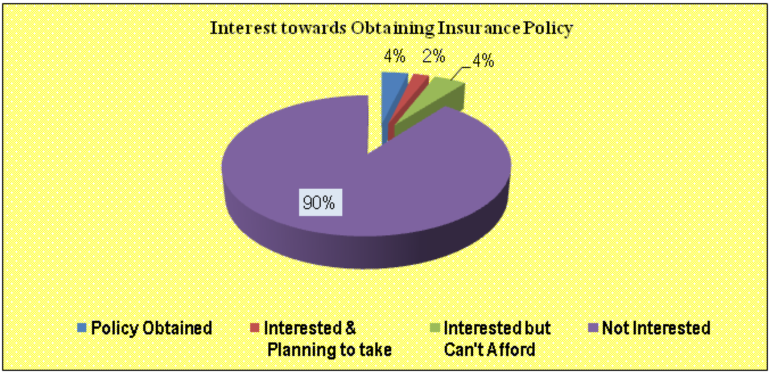
Table-7.23. Financial Inclusion Performance: As Regard Obtaining/Taking Insurance Policies by SHG Members of Barpeta District of Assam.

SHG Models & Intermediaries		Position SHG Members in Obtaining Insurance Policy				Total SHG Members
		Policy Obtained	Interested & Planning to take	Interested but Can't Afford	Not Interested	
SHG Model-II	Block	84	30	75	2086	2275
	%	3.69	1.32	3.30	91.69	100
SHG Model-III	ASOMI	18	5	10	173	206
	Bandhan	12	29	47	434	522
	RGVN	0	4	7	73	84
	Total	30	38	64	680	42
	%	3.69	4.68	7.88	83.74	100
Total SGS (Model-II & III)		144	68	139	2766	3087
% (Model-II & III)		3.7	2.2	4.5	89.6	100

Source: Field Survey.

If we consider the same in terms of SHG models, some 3.69 percent of members under each of the two models have obtained insurance service, more importantly 91.69 percent members are not at all interested to take any insurance services under model-II in the district and the same in case of model-III recorded to 83.74 percent who are not interested towards insurance service during the same period in the district. The other break-ups of the members' comments in the district are presented in the above table. Further a diagrammatic presentation has also been made to show the relative position of SHG members in the district as regard obtaining insurance services.

Figure-7.16.Showing the Interest of SHG members as regard obtaining Insurance Service in the District:



Source: Table-7.23.

As, financial inclusion ensures ease of availability, accessibility and usage of formal financial system to all members of the economy; it has been widely recognized as important means to achieve inclusive growth. So, it is a process of ensuring access to financial services on time, adequate credit at an affordable cost[25] to the poor and vulnerable sections of society. Thus, to regard 'Micro-Credit' as a viable source towards financial inclusion or not, in the district, the SHG members were asked

25 Report of the Committee on Financial Inclusion in India, 2008.Link:http://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/MFI101213FS.pdf.

during field survey about the availability, accessibility and affordability of micro-credit in the district and their response about same are presented in the following table.

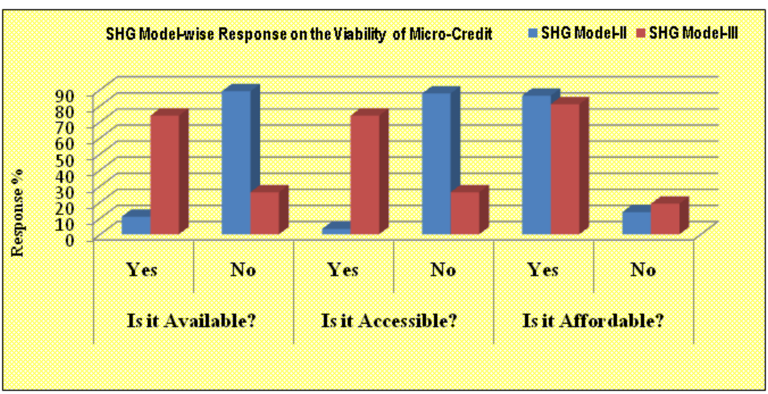
Table-7.24. SHG Members Comments on the Availability, Accessibility & Affordability of Micro-Credit in Barpeta District:

SHG Models & Intermediaries SHGs		Is it Available?		Is it Accessible?		Is it Affordable?		Total SHG
		Yes	No	Yes	No	Yes	No	
SHG Model-II	Block	24	194	27	191	188	30	218
	%	11.01	88.99	12.38	87.61	86.24	13.76	100
SHG Model-III	ASOMI	15	4	13	6	15	4	19
	Bandhan	13	5	13	5	15	3	18
	RGVN	3	2	5	0	4	1	5
	Total	31	11	31	11	34	8	42
	%	73.81	26.19	73.81	26.19	80.95	19.05	100
Total SGS (Model-II & III)		55	205	58	202	222	38	260
% (Model-II & III)		21.15	78.85	22.31	77.69	85.38	14.62	100

Source: Field Survey.

Thus, only 21.15 percent SHGs in the district under both the models expressed micro-credit as available and the rest 78.85 percent said it is not available. In case of accessibility of micro-credit in the district only 22.31 percent of total SHGs under both the models said it is accessible and the rest feel it is not accessible for them in the district. Further and more importantly about affordability of micro-credit, 85.38 percent SHGs replied as it is affordable for them and they can cope with the present cost of credit provided charged various intermediaries in the district. The model-wise response to the availability, accessibility and affordability of micro-credit has been presented with the help of following diagram:

Figure-7.17. SHG Model-wise Response of Members on the Viability of Micro-Credit in Barpeta District:



Source: Table-7.24.

The model-wise response on the same carries different results as 73.81 percent SHGs under model-III have responded micro-credit is easily available in the district, but the same under model-II is only 11.01 percent as per the responses of their SHGs, thus availability of micro-credit discriminates a lot in terms of SHG model. Again, in case of accessibility of micro-credit, which is an important factor as SHG members are mostly women in the district, only 3.33 SHGs under model-II replied as easily accessible and the same under model-III recorded to 73.81 percent under in the district and the members also reported about the spot delivery of credit by their intermediaries under model-III. Further, in case of affordability of micro-credit the response under both the models in the district is almost same, so, cost is not a big factor for the SHGs under both the model in the district. Hence, the SHGs are not looking for more subsidies or funds as charity, rather they are in need of more easily available and accessible credit, thus position of financial inclusion in Barpeta District holds good with Dr. K.C. Chakraborty, the Deputy Governor of RBI view, who rightly puts it, "financial inclusion is the road that India needs to travel towards becoming a global player" (Chakraborty).

7.9. Women Empowerment Performance:

"Millions of women in our hamlets know what unemployment means. Give them access to economic activities and they will have access to power and self-confidence to which they hitherto have been strangers". -Mahatma Gandhi.

Microfinance programmes provide the opportunity to the poor to have access to credit without any collateral, thus it can be treated as a strategy for empowerment of women as well as poverty alleviation (Feroze & Chauhan, 2011). The issue, women empowerment arises due to the vast inequalities between men and women, as of the world's 1.4 billion poor people, nearly 70 percent are women, 75--80 percent of the world refugees are women and children. Women clusters alone perform two-third of works in the world, but in return they earn only one-tenth of the world's total income (Gogoi, 2013). Further, vast majority of poor Indian women are 'Asset-less' and 'Illiterate' with little access to resources, education, training in modern skills, tools and their inability leads them to under-valuation and vulnerability. It is believed that, education is a key for women empowerment and education enables them to make right decisions about their life and careers. But in developing countries, again the Cost of Education cannot be ignored and poverty among them leaves no option rather income generation even at the cost of their career. So, what is more important is economic empowerment, because only women who earn their own income can challenge social and gender relations and bring in gender equality and for that, policies should be such as to facilitate easy credit for women (Mukhim, 2014).

The term 'women empowerment' has come to be associated with women's struggle for social justice and equality and the key word in the term is empowerment is 'power' (Saikia, 2013). Empowerment is the integrated approach towards empowering women encompassing all fronts like social, economic, political and legal. Social empowerment helps women to live in the society with equal rights and freedom, economic empowerment improves the status of women, political empowerment gives women the capacity to influence the decision making process and the legal empowerment safeguards women from exploitation (Kumari, 2009).

Empowerment of women is a process whereby the powerless or disempowerment gain a greater share of control of resources and decision-making. Therefore empowerment is the process of gaining control over self, over ideology and over resources which determine power (Borah, 2010). Empowerment of women means equipping women to be 'economically independent' and personally self-reliant, with a positive self-esteem to enable them to face any difficult situation (Valsamma, 2006). Empowerment is define as 'a continuous process where the powerless people become conscious of their situation and organize themselves to improve it and access opportunities, as an outcome of which women take control over their lives, set their own agenda, gain skills, solve problems and develop self-reliance (Anand, 2002).

Economic empowerment is the key to all kind of empowerment as it attributes women's subordination to lack of economic power. It focuses on improving women's control over material resources and strengthening women's economic security. Pundit Nehru said, 'Freedom depends on economic conditions even more than political and if women's are not economically free and self-earning, she will have to depend on her husband or someone else and dependents are never free'. There is a strong connection between a women's access to independent income and her control over family resources and her position in the family. It is believed that when women are provided credit and they take up income generating activities, their income is expected to increase; when they earn money, their position in the house will improve (Singh, 2006).

While performance of microfinance in women empowerment is considered, it is the 'SHG models' particularly in India, behind the success and in reaching the women cluster of our society and towards their empowerment. SHGs are playing vital role in empowering rural women of villages by enhancing equality of status of women, decision-makers and beneficiaries in democratic, economic and social sphere of life. It also helps in removing social limitations of women such as superstition and dominant role of male in decision making and proved successful in building confidence in the mind of rural women (Rao B. M., 2011) (Baruah, Barthakur, & Sharma, 2013). Women members are able to engage themselves in various economic activities like Weaving, Farming, Petty shops, etc. through their SHGs and that given a new hope of socio-economic empowerment to the women folk of the villages (Kabeer, 2009), (Borah & Saikia, 2013). Women's decision making power has been enhanced by their greater economic status and studies reveal that, they could decide on spending their own income. In some cases, where mobility outside the home is often restricted, women have reported increasing mobility by simply inform the male heads of households instead of soliciting their permission (Sharma Bora, 2008) (Doley, Doley, &Saikia, 2013). In a study conducted in six villages in Pune District, Maharashtra, found that SHGs of microfinance positively impacted on several dimensions of empowerment and the results obtained from the participants interviewed on empowerment indices as 98.6 percent respondents reported about 'greater self-confidence', 97.3 percent reported about 'more assertive role in domestic sphere', 95.9 percent reported 'greater respect within family', 86.8 reveals about 'reduction in domestic violence', 86.3 percent expressed about 'more assertive role in children's health and education', 82 percent responsed about 'greater participation in community affairs', 86.3 percent reported about 'increased awareness, self-confidence to improve family and community lives',

42.5 percent responsed about 'gained new skills', etc.[26] As the objectives of SHG programme implemented through SHG models is to enhance social empowerment and to satisfy social empowerment has been measured in terms of six indicators viz., (i) self-confidence of female members, (ii) abilities to face problems, (iii) control over use of money, (iv) decision making, (v) participation in public affairs, and (vi) ownership of productive and consumer assets, and as per NCAER (2008) survey, 92.0 percent of households reported that social empowerment of women has increased over a period after joining SHGs. Such empowerment was highest in Maharashtra i.e., 95.4 percent, followed by Orissa 94.4 percent, Karnataka 93.6 percent, Andhra Pradesh 91.5 percent, Uttar Pradesh 90.3 percent and Assam 86.5 percent. The performance also varies in terms of SHG models, as it was highest under Model-III i.e., 95.1 percent, followed by Model-II i.e., 91.7 percent and under Model-I up to 91.4 percent (Ghosh, 2012). Thus, SHG models plays major role in bringing social empowerment among

26 Compiled from the study conducted by Centre for Microfinance at Institute for Financial Management and Research, Eye on Microfinance, issue#8, Sept. 2008, www.ifmr.ac.in/cmf, on the topic: Microfinance, Self-Help Groups and Empowerment in Maharashtra. The study also mentioned that, SHG are often evaluated only on financial benefits provided to participants, but there are several other ways that SHG participation can impact women. For instance, more than 90% of women surveyed in this reported gains in self-confidence, freedom of choice, ability to shape their own lives etc.

the women especially among the rural and poor and women, who had no exposure other-wise. So, efforts were made in the field survey in the district to know about the empowerment position of women engaged in SHG activities, by as asking various questions relating to women empowerment.

Of the total sample SHG for the study (i.e., 260 SHGs) in Barpeta District, the all-women members SHG constitute 98.06 percent of the total and interestingly SHGs in the district are found gender specific as either all-women members or male members SHG, and no such SHGs were found with mixed membership both male and female in the district. Thus efforts were made to know sense of empowerment among the women members after joining the SHG in the district by asking the following questions:

(a). Participation of women members in various activities of SHG: Willing participation of members towards various SHG activities symbolizes the interest and that leads to empowerment, as members were asked about their participation in some important activities of SHG and found that, 89.96 percent of total members under both the SHG models (i.e., Model-II & III) are regularly attending the meetings, 77.26 percent members freely keep their opinions in the group meetings, 23.23 percent are willing to go for official works or visits their intermediaries, 21.9 percent members are willingly going to market for group activities for buying and selling. Again, there exists little variation in the performance in terms of models, as 90.60 percent of the total members under model-II are attending meetings regularly, whereas the same under model-III is stand to 92.73 percent. Again, as regard of 'expression of opinion' by members, 75.20 percent members replied as they freely keep their opinions in meetings under model-II and the same found up to 86.82 percent under model-III in the district. Thus, members under model-III are comparatively performing better than model-II in the district. Further, details are given in the following table:

Table7.25. Women Empowerment Performance- Analyzing Willingness of SHG Members towards Various Activities of the Group:

SHG Models & Intermediaries of SHGs		Some Empowerment Factors for SHG members: (Members involvement in various SHG activities)					Total SHG
		Going to Market	Attending Meetings	Involving in Production work	In Expressing Opinion	Going to Official works	
SHG Model-II	Block	414	2024	854	1680	288	2234
	%[27]	18.53	90.60	38.23	75.20	17.37	100
SHG Model-III	ASOMI	68	190	47	176	130	206
	Bandhan	180	487	110	461	178	522
	RGVN	14	76	54	68	21	84
	Total	262	753	211	750	329	812
	%	32.27	92.73	25.99	86.82	40.52	100
Total SGS (Model-II & III)		676	2777	1065	2385	717	3046
% (Model-II & III)		21.9	89.96	34.5	77.26	23.23	100

Source: Field Survey.

27 The figures in the % rows in this table are the percentage of respondent's comments, which have been calculated out of the total respondents every time for having multiple options of comments for members on the empowerment issues. * This figure includes only women members and male SHG and members are ignored in this case.

(b). As regard seeking permission for SHG activities: Efforts were made during the field survey to know whether the women members have to seek permission every time from her husband or male head of the family to perform various SHG activities? And the responses obtained from the members as per the options are given in the following table:

Table-7.26: Analyzing Women Liberty as regard: Whether they can come Deliberately or have to Seek Permission for SHG Activities?

SHG Models & Intermediaries		Performance Measuring Factors				Total SHG Members
		Not Needed	Not a Must but Needed	Seldom Needed	Must be Obtained	
SHG Model-II	Blocks	363	1390	124	357	2234
	%	16.25	62.22	5.55	15.98	100
SHG Model-III	ASOMI	24	121	33	28	206
	Bandhan	0	336	97	89	522
	RGVN	12	26	40	6	84
	Total	36	483	170	123	812
	%	4.43	59.48	20.94	15.15	100
Total (Model-II & III)		399	1873	294	480	3046
% (Model-II & III)		13.1	61.49	9.65	15.76	100

Source: Field Survey.

It is found that, 61.49 percent members reported as ‘it is not a must but needed’ that means seeking/taking permission is not a pre-condition, but mere information to the husband or others member of the family is consider as ethics of the family, so only needs to inform and if fails, that will not create any trouble for them. Followed by that, 15.76 percent members said they have to seek permission or it is ‘must be needed’ and lacking in that will create trouble for them, 13.1 percent members have reported as they need not to take permission and 9.65 percent members said it is ‘seldom needed’. Again, model-wise little variation has been found in the comments of members to the issue, which is shown in the above Table-7.26.

(c). Is earning from SHG activities have to hand-over to husband/male head of family? The matter of women empowerment also lies with whom to hand-over their earnings? So, the researcher tried to know during the survey in the district and found that, 83.62 percent of total respondents together under both the models (i.e., model-II & III) said ‘No/Not needed’ or they need not to hand over their earning to husband or to male head of the family and they can keep it their own and the rest said they need to hand over their income either fully or some part to the husband or male head of the family. The model-wise response is also presented in the following table and it can be seen that, 85.59 percent members under model-II said need not to hand over their income, but the same under model-III is 78.20 percent.

Table-7.27(A). Women Members Position regarding their Earning (Whether they have to hand-over their earning to the husband/male head of the family?)

SHG Models & Intermediaries of SHGs		Response of Members		Total Women SHG Members
		Yes/ Needed	No/Not Needed	
SHG Model-II	Block	322	1912	2234
	%	14.41	85.59	100
SHG Model-III	ASOMI	50	156	206
	Bandhan	94	428	522
	RGVN	33	51	84
	Total	177	585	812
	%	21.80	78.20	100
Total SHG (Model-II & III)		499	2547	3046
% (Model-II & III)		16.38	83.62	100

Source: Field Survey.

As 16.38 percent of the total respondent replied as they needs to hand over their earning to the husband or male head of family, so, it was again tried to know how frequently they have to hand over that. The analysis of the same has been present in the following table:

Table-7.25 (B): Analyzing how frequently women members have to hand-over their earning to husband/ male head of family:

SHG Models & Intermediaries		Parameters			Total Women Members Said Needed
		Seldom Needed	Frequently Needed	Always Needed	
SHG Model-II	Blocks	192	124	6	322
	%	59.63	38.50	1.86	100
SHG Model-III	ASOMI	40	10	0	50
	Bandhan	37	57	0	94
	RGVN	20	13	0	33
	Total	97	80	0	33
	%	54.80	45.20	0	100
Total (Model-II & III)		289	204	6	499
% (Model-II & III)		57.92	40.88	1.2	100

Source: Field Survey.

So, it reveals from the table that, 57.92 percent of members who said they need to hand-over their earning, reported as ‘Seldom Needed’, 40.88 percent said as ‘Frequently Needed’ and only 1.20 percent members said as ‘Always Needed’. Further, model-wise break-ups of the response are also presented in the above table and that reveals no major difference in response of members in terms of models in the district.

(c) Do women members need permission from husband/ male head of family to spend their earning?

The spending decision of the earning of women members deeply recognizes the empowerment position, as either male are mostly dominated in this regard or female spend with their consent. As such, it was asked to the respondent in the field survey, whether they need permission from husband or male head of the family to spend their earning or not. The response obtained is present in the following table:

Table-7.28(A): Position of the women members regarding their Spending (Whether have to take permission to spend their earning from husband or male head of the family?)

SHG Models & Intermediaries of SHGs		Response of Members		Total Female SHG Members
		Yes/ Needed	No/Not Needed	
SHG Model-II	Block	644	1590	2234
	%	28.83	71.17	100
SHG Model-III	ASOMI	94	122	206
	Bandhan	191	331	522
	RGVN	62	22	84
	Total	347	465	812
	%	42.73	57.27	100
Total SGS (Model-II & III)		991	2055	3046
% (Model-II & III)		32.53	67.47	100

Source: Field Survey.

It is found that, 67.47 percent of total respondents together under both the models (i.e., model-II & III) said ‘No/Not Needed’ and they spend their earning of their own for purchasing their needs and the needs of family, but for purchase of assets, jewelry etc. male members are often consulted for better advise but that is not under any pressure and compulsion as reported by the respondent in the district. Again, under SHG model-II, 71.17 percent members said as ‘not needed’, but the same under model-III, stood at 57.27 percent.

As, 32.53 percent of the total respondent under both the models taking together replied about, they have to take permission from their husband or male heads to spend their earnings, which contravene the spirit of women empowerment. So, further analysis has been made to know about the frequency of such permission that needs to be taken and is presented in the following table:

Table-7.28(B).Analyzing how frequently women have to take permission to spend their earnings from husband or male heads of the family:

SHG Models & Intermediaries		Parameters			Total Members
		Seldom Needed	Frequently Needed	Always Needed	
SHG Model-II	Blocks	447	156	41	644
	%	69.41	24.22	6.37	100
SHG Model-III	ASOMI	11	63	20	94
	Bandhan	142	46	3	191
	RGVN	27	31	4	62
	Total	180	140	27	347
	%	51.87	40.35	7.78	100
Total (Model-II & III)		627	296	68	991
% (Model-II & III)		63.27	29.87	6.86	100

Source: Field Survey.

It is found that, 63.27 percent respondents under both the models said as ‘Seldom needed ‘for them, that means they do not regularly seek permission for their spending, 29.87 percent respondent said ‘Frequently needed’ or they have to seek frequent permission before spending and failure leads to family quarrel. Further and more importantly 6.86 percent respondents reveal that they have no option rather to go with the permission for any spending even if their own earning. So, though the percentage is small but the same signifies and goes against the spirit of women empowerment in the district. Again, model-wise performance reveals that, the relative position on issue under model-II is better than under model-III in the district.

(d) Do women members get importance in decision making in family affairs?

It is an important factor to access women empowerment, whether women members have been consulted while making decisions on family affairs or not. Accordingly the members were asked whether they are being given importance in the family decision making or not? It is found that, 93.20 percent of the total respondent together under both the models said ‘Yes’ and they are now being involved and consulted in family decision making, where earlier they were mostly ignored. While, under model-II, 94.45 percent respondents considered their importance in the family decision making and that under model-III is 89.78 percent in the district. The details analysis has presented in table-7.29(A).

Table-7.29 (A).Position of Women in Decision-Making after becoming SHG Member:

SHG Models & Intermediaries of SHGs		Response of Members		Total Female SHG Members
		Yes/ Getting Importance	No/Not getting Importance	
SHG Model-II	Blocks	2110	124	2234
	%	94.45	5.55	100
SHG Model-III	ASOMI	197	9	206
	Bandhan	454	68	522
	RGVN	78	6	84
	Total	729	83	812
	%	89.78	10.22	100
Total SGS (Model-II & III)		2839	207	812
% (Model-II & III)		93.2	6.8	100

Source: Field Survey.

Further, it is really significant for empowerment as the women members are being given importance in the family decision making after becoming an economic agent through SHG activities in the district. Thus efforts were made to know, how frequently they are considered and result obtained is presented in the following table:

Table-7.29 (B). Whether Women are given chance to take Decision regarding their family affairs after they join SHG:

SHG Models & Intermediaries		Performance Factors				Total Female Members
		Seldom Considered	Sometimes Considered	Frequently Considered	Most of the time Considered	
SHG Model-II	Blocks	65	302	1070	673	2110
% Out-of Total Female Members of Model-II:		3.08	14.31	50.17	31.90	100
SHG Model-III	ASOMI	10	12	58	117	197
	Bandhan	61	29	147	217	454
	RGVN	6	16	45	11	78
	Total	77	57	250	345	729
% Out-of Total Female Members of Model-III:		10.56	7.82	34.29	47.33	100
Grand Total (Model-II & III)		142	359	1320	1018	2839
% Out-of Total Female Members (Model-II & III):		5.00	12.65	46.50	35.85	100

Source: Field Survey.

It is ascertained that, 46.50 percent respondents together under both the models replied as they 'frequently considered' followed by 35.85 percent respondents who said they are 'most of the time considered', while making any decision in family matters. The model-wise break-ups on the issue can be understood from table-7.29 (B).

(e). Does the women members are interested towards Politics?

Interest towards politics was considered as a factor to assess women empowerment of SHG members in the district, and whether their interests have grown towards politics after linking with SHG or not. As it is believed political interest is a matter of great courage and confidence despite many other important factors. The results obtained are presented in the following table:

Table-7.30(A). Analyzing Women Interest towards Politics:

SHG Models & Intermediaries		Responses of Members		Total SHGs Members
		Yes / Interested	No / Not Interested	
Under SHG Model-II	Blocks	930	1304	2234
% Out-of Total SHG Members		41.63	58.37	100
Under SHG Model-III	ASOMI	50	156	206
	Bandhan	208	314	522
	RGVN	13	71	84
	Total	271	541	812
% Out-of Total SHG Members		33.37	66.63	100
Grand Total (Model-II & III)		1201	1845	3046
% Out-of Total SHG Members		5.00	12.65	46.50

Source: Field Survey.

It is found that, only 39.43 percent respondents together under both the models are interested towards politics and major part i.e., 60.57 percent respondents have shown no interest towards politics in the district. And interest of respondents varies according to the models, as under model-II, 41.63 percent respondents records their interest towards politics and that under model-III its stand at 33.37 percent. Further, to know the interest level of the respondents who said as interested, they were again asked about their interest level towards politics and results obtained are presented in the following table:

Thus, 61 percent respondent together under both the models said they are interested in politics followed by 18.07 percent respondents said they are partially interest and 10.24 percent are highly interested towards politics. Other model-wise break-ups on the issue is given in the above table.

Table-7.30(B) Analyzing Interest Level of Women towards Politics:

SHG Models & Intermediaries		Performance Level of Members				Total Female Members
		Less Interested	Partially interested	Interested	Highly interested	
SHG Model-II	Blocks	77	140	590	123	930
	%	7.28	15.05	63.44	13.23	100
SHG Model-III	ASOMI	21	10	19	0	50
	Bandhan	27	61	120	0	208
	RGVN	4	6	3	0	13
Total		52	77	142	0	271
Grand Total (Model-II & III)		129	217	732	123	1201
% of Members: (Model-II & III)		10.74	18.07	60.95	10.24	100

Source: Field Survey.

(f) Does the women members raise voice and stand united against violence/ exploitations, if reported?

Violation towards women is very common problem in our society and the rate is more frequent in case of the poor, illiterate and with rural women in our country. Thus, as a factor to sense the empowerment among the women respondents in the district, they were asked about their unity of group towards any wrong or violation/exploitation if reported by any members and how they take those matters. It is found that, 57.03 percent of the total respondents under both the models said that, they are 'Most of the time concern' and oppose such violence if happen to any members or even if happen to their neighbors. Some incidents of beating by husbands after drinking are able to control as reported by the groups and due to groups' support with members many such violence/exploitation are also nip in bud, as reported by them. But, the spirit to deal with such cases is not uniformly followed in all the groups in the district, as 28.90 percent respondents under both the models said they are concern about such cases, but subject to certain limitations and after having permission from their husbands, with lesser degree of interest and or spirits to resolves those problems. A small percentage of respondents i.e., 3.13 said they are not at all concerned and leaves those cases even if reported to them as their personal or family matters.

The model-wise break-ups on the issue reveal that, respondent under model-II are relatively more united and concern about their members as per information in the table and seems more involved and concern to mitigate those violations or exploitations of members if reported to them, then under model-III in the district.

Table-7.31. Analyzing Unity of Group Members against Violence/Exploitation if happen towards them:

SHG Models & Intermediaries of SHGs		Performance factors					Total Women SHG
		Not at all Concerned	Seldom Concerned	Partially Concerned	Concerned	Most of the time Concerned	
SHG Model-II	Block	5	7	12	65	125	214
	%	2.34	3.27	5.61	30.37	58.41	100
SHG Model-III	ASOMI	2	2	3	6	6	19
	Bandhan	1	1	1	2	13	18
	RGVN	0	1	1	1	2	5
	Total	3	4	5	9	21	42
	%	7.14	9.52	11.90	21.43	50	100
Total SGS (Model-II & III)		8	11	17	74	146	256
% (Model-II & III)		3.13	4.30	6.64	28.90	57.03	100

Source: Field Survey.

A success story in the district:

My husband was very cruel person; he used to drink every night and became violent at me every night, he abuse me, beaten me hard almost in every night. Due to poor income and growing family burden of expenses my husband becomes more violent day by day. Then, in 2005, I was told about SHG and how it could be beneficial for poor and helpless people like me. I without further delay took membership by Rs.10, thought it was joining fee, but later on told, that was for savings. After that, I found a group to share my pains and my group members helps me a lot and for having groups support (some time group meeting at my home) my husband bound to reduced his cruel behaviors and now he become a good husband and no more violence at my home. Thanks, to 'LakhimiAtmoSahayak got' for rescue me physically and financially. Expressed by a Women Member, Lakhimi SHG, Gabordhana Block.

Thus, the factors undertaken for assessing women empowerment among the members in the district are mostly scored in favour of empowerment, as such it can be said that women members in the district are empowered to a greater extent after connecting with SHG.

7.10.Test of Hypotheses:

1. Null Hypothesis ($H0 : \mu = \mu 0$) Amount of Loan obtained by SHGs in Barpeta District does not differ significantly from State (Assam) average of Amount of Loan obtained the by SHGs.

Alternative Hypothesis ($H1 : \mu > \mu 0$) Amount of Loan obtained by SHGs in Barpeta District differs positively from the State (Assam) average of Amount of Loan obtained the by SHGs.

Since IZI= 2.09, i.e., > 1.645 at 5% significance level, we reject the Null Hypothesis and accept the Alternative Hypothesis, i.e., performance of SHGs in Barpeta District is better than the

State average of loan obtained by SHGs.

But, at 1% significance level, the result of the test is different. Since IZI= 2.09, i.e., < 2.33 at 1% significance level, we accept the Null Hypothesis, i.e., performance of SHGs in Barpeta District is not better than the State average of loan obtained by SHGs.

2. Null Hypothesis (H0 : $\mu = \mu 0$) Income Generation by SHGs in Barpeta District does not differ significantly from the State (Assam) average of Monthly Income Generation by the SHGs.

Alternative Hypothesis (H1 : $\mu > \mu 0$) Income Generation by SHGs in Barpeta District differs positively from the State (Assam) average of Monthly Income Generation by the SHGs.

Since IZI= 9.38, i.e., > 1.645 at 5% significance level, we reject the Null Hypothesis and accept the Alternative Hypothesis, i.e., performance of SHGs in Barpeta District is better than the State (Assam) average of Monthly Income Generation by the SHGs. At 1% significance level, the result is same.

3. Null Hypothesis (H0: $\mu = \mu 0$) Monthly savings of the SHGs in Barpeta District does not differ significantly from the State (Assam) average monthly savings of the SHGs.

Alternative Hypothesis (H1 : $\mu \neq \mu 0$) Monthly savings of the SHGs in Barpeta District differs significantly from the State (Assam) average of monthly savings of the SHGs.

Since IZI= 0.0103, i.e., < 1.96 at 5% significance level, we accept the Null Hypothesis, i.e., performance of SHGs in Barpeta District is satisfactory in the question of Monthly Savings by them. At 1% significance, the result is same.

4. Null Hypothesis (H0: $\mu x = \mu y$) (i.e., There is no significant difference between loan obtained by SHGs and loan demanded by the SHGs in Barpeta District)

Alternative hypothesis: (H1 : $\mu x \neq \mu y$) (two-tailed) (i.e., There is a significant difference between loan obtained by SHGs and loan demanded by the SHGs in Barpeta District)

Level of significance. α =1% =0.01, Level of significance. α =5% =0.05

Since IZI= 6.48 is much greater than 3 (obviously greater than 2.58, the sig. value of Z at 1% level of significant & greater than 1.96, the sig. value of Z at 5% level of significant), it is highly significant. Hence data are inconsistent with the null hypothesis and we conclude that total amount of loan obtained and total amount of loan demanded differ significantly.

7.11. Conclusion:

The performance of SHG models (i.e., model-II &III) on the chosen parameters of growth and development in the district during the period of study have recorded mixed response as in some cases performance under mode-II found better than model-III and vice versa in some other cases. But, in common the models are performing well in reaching poor people, providing amount of loans, savings, self-employment and women empowerment etc. in the district during the period of study and emerged as the most prominent means of delivering microfinance service to the poor. SHGs under model-II comprise the SHG under eleven development blocks of the district and that under model-III comprises the SHGs of three main MFI of the district namely ASOMI, Bandhan and RGVN. As some important developmental parameter have been adopted in this study to evaluate the performance of SHG models on those parameters in the district, mainly, loaning, income generating activity, income generation, savings, financial inclusion and women empowerment performance along with training and awareness generation performance during the period of study. And it is found that, SHGs under model-III are more actively performing mostly on those parameters than SHGs under model-II. As regard loaning, income generating and savings performance SHGs under model-III are in better position than SHGs under model-II. The annual average amount of loan obtained by SHGs under model-III is more than double, of the average amount of loan that obtained by the SHGs under model-II, thus it discriminates huge in loaning among the models. In the selection of income generation activity the SHGs under model-III are found more generous and mostly engaged in multiple activities and take the advantages of earnings all through the years, where SHGs under model-II are mostly specific and strict to a particular type activity and for that they suffers from seasonal depression. In case of income generation performance of SHG, again, SHGs under model-III is comparatively earning more than the SHGs under model-II and the same is the case with group's savings, which is also higher of the SHGs under model-III in the district. In financial inclusion the performance of SHGs under both the models are neck to neck, but in women empowerment performance of SHGs under model-II seem better and women members under this model found more concern about.

Thus, in most of the core developmental parameters of this study, the SHGs under model-III in the district are found more active and good performer compared to model-II and better performance of those SHGs under model-III signifies the effectiveness and services quality of the model to the SHGs in the district. More importantly, the frequency and quantum of loans, supervision, guidance, training etc. under model-III found better, where model-II established poor performance during the period of study and model-III stands superior to model-II in terms of results of the parameters of this study in the district.

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Problems with Sustainability of SHGs

Chapter - 8

Problems with Sustainability of SHGs

8.1. Introduction:

While microfinance becomes an acute poverty alleviation mechanism in most of the developing countries, including ours, the sustainability of its approaches also becoming crucial with the passage of time. Sustainability of result is the ultimate aim behind most of the developmental initiatives and that should be the slogan to have permanent development, as when sustainability fails, the efforts made towards those initiatives become valueless and loss. Again, real success of a programme is best judged by its sustainability in giving benefits to the targeted people, as such, despite having many policy initiatives from time to time, achievement of those initiatives in real sense remains meager in our country. Sustainability means different things to different people. One concept of sustainability is the continued existence and functioning of groups (i.e., SHGs) providing unfettered access to financial services for their members, facilitating access to higher level financial institutions with low costs and high recovery rates. Thus, recognizing two aspects to this; one is the affordability of interest costs to the members of the groups and the second is easy access to services (Srinivasan, 2009).

The sustainability of microfinance programmes is traditionally related to the social benefits that derive from them, usually meant, though not exclusively, as the ability to reach the poorest sector of the population. Microfinance, sustainability is understood primarily as the ability to repeat loans over time, regardless of how the financial stability of the project or institution is achieved (Vento).

Microfinance services in India is mainly delivering through the SHG models and it has spread well in our country as well in different parts of the world, thus becoming one of the dominating models of microfinance (Ghate, 2009). The initiative taken in 1992 to link only 500 SHGs with the banks to have better financial services has grown tremendously and becomes a movement and by the end of March, 2012, the number of SHGs linked to banks reached to 79.60 lakh (NABARD, 2012). Such remarkable growth and development in the microfinance sector has definitely made it possible to reach to a section of needy people, mainly the poor and women of our society and in some cases microfinance becomes the only hope for the survival and economic empowerment of those people (Yunus & Jolis, 2007). Again, the introduction of SGSY scheme in 1999, which has been considered as mega poverty alleviation programme and a milestone for India, resulted in the rapid growth and development of microfinance sector of our country and also contributed a lot in the development of SHG movement, but its subsidy provisions attracted more and more people and people, with need and without need, were also involved in the microfinance sector and formed SHGs to take the benefits of subsidy and when they found no more such benefits they stop working in SHG, as a result a portion of SHGs are listed as defunct SHGs and all efforts made to those groups are now in isolation and loss (Bajur Baruah, 2012). Thus, the questions of sustainability of SHGs are arising as to- whether this mode of providing financial services to people of small means is sustainable? Whether microfinance in its present form is getting fatigued? Has the programme been loaded with extraordinary expectations? etc. Some iconic leaders in this sector have claimed that microfinance has the ability to push poverty into museum in due course of time and these very claims have pushed the microfinance industry into public glare and scrutiny. As such researchers, media and civil society sought hard evidence of the impacts that microfinance claims to be creating. The practices of some of the MFIs leading to the microfinance crisis and the negative publicity that followed created that MFIs are nothing but glorified moneylenders (Srinivasan G. , 2013).

The sustainability issue of SHGs cannot be generalized from one angle, as it is relating to both sides, as to the SHGs as well as intermediaries of SHGs and on their support system. For sustainability, the SHG members have to work as per the system and decorum framed for the same and they should have to follow the ultimate aims behind the formation of their SHG and needs to work-hard to achieve the same. On the contrary, there should be regular follow-up and support from the intermediaries in terms of credit facility; management, training, awareness generation etc. so that, SHGs are found to remain enthusiastic in their performance.

As SHG members often face problems with access to information and knowledge, as such, the poor of the rural areas are not fully aware of the concept of SHG. Their loan portfolio is generally dominated by consumption loan, thus struggle to repay the loan and rise in income is just too modest. Studies reveal that, the scheme is not helping the poorest of the poor and conferring benefits on the better-off sections. Moreover, there are huge regional imbalances in respect of growth of MFIs, as of the total SHGs credit linked; only Andhra Pradesh accounted for 30 percent (Sundaram, 2007) and the rest spread over to the country. As financial services delivery models, the SHG approach is very unique and it has emerged clearly as superior models compared to the Grameen and MFI models. At the same time, the huge gap of unmeet demands of financial needs along with others facilities leaves the SHGs into trouble, and the shrinking support system from the govt. and non-govt. agencies leads a portion of SHGs either inactive or un-functional in our country, thus sustainability of those SHGs is in uncertainty.

Again, Northeast Region is the most financially excluded region in India, as the banking and other financial infrastructure is very weak in this region, the region is lagging behind in almost all critical banking outreach indicators. In June 2009, average population per commercial bank branch for Northeast were as high as 21,000, 40% higher than the national average. The region also offers less investment opportunity which is reflected from its low credit-deposit ratio (CDR). As in March 2009, the CDR of Northeast, as per sanctioned amount, was 35.8%, a figure less than half the country average of 72.6%. These indicators clearly depicting about the extent of financial exclusion in the region and that gaps could not be amply filled by the MFIs too, as microfinance in the region has not strongly taken off yet. The SHG-Bank linkage has limited outreach, shows erratic growth and suffers from quality issues with high NPAs, (Sharma P. , 2010).

8.2. Some Common Problems with Sustainability of SHGs:

The issues and problems with sustainability of SHGs are not different from those of usual factors of their strength, but difference lies with its utilization and disposition of its services. While those factors utilized in positive-angle and in more effective manner becomes the strength for the groups and on the contrary the same stand as constraints towards sustainability for the SHGs. A list of those factors found responsible in various studies as regard problems with sustainability of SHGs in our country are given below with brief explanation about how they stand as constraints to the sustainability of SHGs.

- **Financial Service:** Although microfinance is well known for its 'micro-credit' or 'loan facility' without collateral to the poor people including women. But studies also reveal that lack of proper financial services to the SHGs either loan amounts are not delivered on time or insufficient amount of loans as required by the SHGs (Ghate, 2009). Thus SHGs are suffering from shortage of finance, as such their sustainability is in trouble (Mishra, Verma, & Singh, 2001). Again, long-term availability of financial backing for the programme is also an issue with sustainability of SHGs.

- **Management:** SHGs management becomes equally important for their constant and active performance and the SHGs management tool have not been developed in our country at such a speed and numbers as the SHGs grown. The SHPI (SHGs promotional institutions) are not sufficient to meet the growing needs of SHGs and apex authority of this sector are also not actively performing for the vibrant management and development of SHGs and their sustainability is in hard-context.

- **Training:** Training is an indispensible part of SHG programme, thus SHGs are to be provided with proper training facilities to perform their activities effectively and further to develop their skills to use in their new and in existing income generating activities, and for this, bulk amounts are spending. But, the studies reveal that, trainings are not sufficient for the SHGs and they are not sufficiently benefited from those training programme. Lack of adequate and timely training has weakened the performance of SHGs and that in long run makes the SHGs inactive (Dwarakanath, 2002).

- **Groups Norms:** SHGs are the small informal affinity groups of people; join together for self-help and mutual helps. SHG Members are either mostly illiterate or with very poor educational background, as such for their active management, it demands some strict rules needs to be followed for the sustainability of the group. As in case of Grameen models there are ten points rules for each group and members are bound to follow them all (Yunus, 2007), similarly, some rules also exist under SHG models for the SHGs. But, sometimes some of the rules become difficult for the members to cope with that, again, members under SHG models are mostly women, as such those rules stand as constrains for the groups as well for the members and challenges to its sustainability (Satish, 2001).

- **Savings:** While 'Savings' is considered as one of the most unique features of microfinance programme and to bring the economic stability among its members, at the same time, some studies reveal about the member's inability towards savings. The concept of Savings first, then credit, don't apply fruitful for all the members and members with very poor economic back-ground find it difficult at the initial stage to have some saving on their own. Thus, Savings stand as constraint in some cases.

- **Record Keeping:** As the member of SHGs, including president and secretary, in most of the cases are mostly less educated and often face difficulty in maintenance of books of accounts and other records which are very important for their sustainability. Records are evaluated at the time of promotion of groups to next level for offering grades to have financial assistance from banks and their poor performance in records keeping create hindrance in the process. Further, most of the groups are relying either on the intermediaries or on the field staff or on some external person for maintenance of accounts and records, which in long run hesitate to provide such services (Kumaran, 2002).

- **Organizational:** The organizational strength is one of the key factors to the objective of formation of SHGs, which is very important for sustainability. Because, groups that are formed to take the advantages of subsidy finds with short life span and members role and responsibility are also found very inactive or uninterested (Srinivasan, 2009).

- **Network Capacity of Financial System:** The RBI, with its total support and endorsement for programme to ensure growth of SHG loan portfolio through banks. The policy environment is positive which induces greater participation of banks in the programme, improve sustainability and banks have done tremendous job in linking of SHGs. But network capacity in the rural branches has not been expanding at the rate as needed, similarly, staff strength and other capacities are also not sufficient to meet the growing needs of the sector, as such SHGs are either under-serve or not getting any services and that creating problems for sustainability (Sinivasan, 2009).

- **Operational Issues with Linkage:** The financial sustainability of SHG-bank linkage programme has to be viewed in totality. The key issue of SHG-bank linkage is that, the banks will continue their service in long run if they find it profitable. But the methodology of measuring profitability is still an issue. A study conducted by M-CRIL in five RRBs estimates that the cost-covering rate of interest for linkage is 20-22 percent and banks generally charges 10-12 percent for SHG lending, thus banks are incurring losses (Srinivasan, 2009). And that stands as constraint towards the sustainability of SHGs.

- **Quality of Linkage:** The quality of linkage and other service practices used need improvement. The groups are compelled to keep their savings only with the banks and no further investment proposal for them to utilize their savings. Groups with relatively long existence and sizable amount of group's funds are looking for an alternative. Again, clumsy procedures of selection of beneficiaries, delay in sanctioning loans, frequent changes of banks staffs etc. create many problems and disturbances in the working system among the members.

- **Post-Linkage Follow-up:** The post-linkage follow-up becomes a serious concern as expressed by the bankers, the banks are over work-loaded, 'per branch number of groups' is increasing and in some branches more than 200 groups are linked (Srinivasan, 2009). As such, many SHGs are yet to graduate to offering voluntary Savings facilities to the members. Moreover, many groups do not allow withdrawal of savings by members. Loss of liquidity in their own savings proves to be a disincentive for clients who would like to save any surplus cash they have with the group.

- **Regulation:** Lack of proper microfinance Bills and Regulations also hinders the developmental processing of SHGs in our country (Namboodiri & Shiyani, 2001). As Noble Laureate Amrtya Sen views it, "Microfinance is like all finance. It needs to be regulated". But that's exactly where India is faltering. Though RBI is given the responsibility of regulating the sector, the way it is expected to function still remains in the dark; more so for the provision that talks about delegation of powers (Patra, 2011). Indian microfinance industry is currently running around like headless chicken in the absence of definitive laws and a dedicated regulator.

- **Lack of Awareness:** It is also revealed from studies that, people are not aware of SHG, its formation and functioning system, that in the initial stages create many problem. In such cases, much resistance are found not only from the prospective members but also from their spouse and this happens only for lack of awareness (Kumaran, 2002).

- **Selection of Beneficiaries:** Selection of group members is another challenge as members are either selected basically on basis of emotion or relation and effeciency is least weighed. Studies also reveal that, poorest of the poor are not selected and included in the process and they remain far from this facilities.

- **Lack of Leadership:** Lack of leadership qualities is another key problem faced by most of the SHGs in the initial stages of formation of groups. This may be due to the lack of education and low socio-economic background of leaders. Even the educated have not shown any interest in order to avoid responsibilities and change of leadership is rarely found in the SHG as other members avoide leadership charge (Sundaram, 2007).

- **Misappropriation:** The misappropriation of group funds also stands as a reason towards the sustainability of SHGs. As it leads to the distrust and internal dispute among the members as such the interest towards groups activity and unity of members shrink.

- **Migration of Members:** The frequent change of group members and replacing new members also create problem in the smooth functioning of groups. Exccesive groups formation, competation of intermediaries to form more groups in the same areas, leaves more options among the members to change their group or to accept multiple group memberships.

- **Business Failed:** Members of SHGs are basically from domestic and poor social back-ground and they generally donot have good business idea. Again, due to rush in providing training to groups, they fail to cope with the business ideas, as in most of the cases, the business activity adopted by the SHGs either fail or their products fail to meet the market standard and competation.

- **Bank far Away:** As SHG members are mostly women, their formost job is to maintain their family affairs. So, for them, it is difficult to visit the bank branches, which are again not nearby and often over-crouded with customers. Thus, it creates big problem for them and affects their performance and spirit.

- **Political Interference:** The vote bank politics with the poor, and SHGs are good platform for them to reach the common people, who generally support their instant beneficial policy rather sustainability issue. The example in Andhra Pradesh, where government was made cheap credit for the poor as an important part of election platform, through the 'Pavla Vaddi' or literally quarter interest rate scheme, which derives its name from the fact that the state government stands committed to subsidize whatever excess of interest over 3 percent the SHGs have to pay to the banks for linkage loans (currently about 12 percent) and that provision actually weaken the performance of SHGs and that is for the political gains not to help poor in real sense (Ghate, 2009).

Further, the prevailing situations and studies also suggested that SHGs, in due course of time, may suffer from factionalism and internal rivalries, may be dominated by self-interested, corrupt leaders or management, lack of solidarity among members and shortsighted and inefficient management may also create problems of sustainability for SHGs (Laxmi, Kulshresthra, & Gupta, 2004).

8.3. Microfinance - from ethical to unethical finance:

Microfinance is more popular as 'Ethical finance' among the poor, as it is primarily meant for the poor and provide without charging any physical collateral or guarantee, but mostly on the basis of hard-working spirit, quality of borrowers and on faith, to the poor people and that under SHG models, on the basis of group and peer-pressure, which serve as the only social collateral to finance them. Thus, credit worthiness for loans is best judged here in terms of their labour potentiality and quality, where in case of formal financial sector, it is provided only on the basis of credit-worthiness measured by the physical security or mortgage of borrower. Because, in formal sector they mostly believed that 'poor are not credit worthy', 'poor are not bankable', but the Grameen experiments have been established and bring out real facts, and those slogans or assumptions against poor are proved wrong and established, how the poor can be effective borrowers in lending and in financial transactions, just they need to be believed, supported and guided. As Muhammad Yunus, the pioneer of Grameen Bank, Bangladesh, expressed that- ***'It's not people who aren't credit-worthy. It's banks that aren't people-worthy',*** (Yunus, 2009). He also mentioned how even small amount of loan can change the life of poor and that have been established by his experiment, the story of Jobra[1] village of Bangladesh. Thus, he strongly believe and suggested, that there is a right to the kind of credit that can enable the very poor to start small-scale commercial enterprises. Or, in other words, he believes in a human right to microfinance (Sorrel, 2011). Again, there are reasons to accept microfinance as ethical finance and that purely meant for the poor for their betterment and development. Further, some grounds to accept microfinance as ethical finance are (Vento):

- **Inclusive Finance:** As it fight against financial exclusion and poverty and not merely relying on giving loans to have interest income only.

- **Social and Humanitarian Aims:** The aims of microfinance is not only limited to giving access to loan facilities, rather it also provides all other financial support system to have all round development of poor, as it also includes savings, insurance, banking services, money transfer, training for self-employment etc.

1 Jobra is the name of the village of Bangladesh; where from Professor Muhammd Yunus started his microfinance experiment and gradually established the world famous and recognized 'Grameen Bank' with poor people, comprises mostly women members. The village is situated in Chittagong District, near to the Chittagong University of Bangladesh. Prof. Yunus started his great microfinance experiment with the assumption as himself as a student, Jobra as his university and the poor people of Jobra as his teachers to understood the real problem and to mitigate the same. His 'Grameen Model' the Grameen-type credit programmes is being replicated in fifty-nine countries, both in the developing and in the developed countries. (Yunus & Jolis, 2007, pg-182).

- **Selective Finance:** The finance that supports some special sectors is commonly considered ethical by collective social awareness, and microfinance follows that.

- **Compliant Finance:** Finance that is in the compliance with regulations and associated rules which govern the issues relating to diligence, fairness and transparency and respect of stakeholder interest.

Again, if we appraise the history of microfinance and about the development of some apex microfinance organizations like[2] BRAC, Gramen Bank, BRI, FINCA, ACCION, CARE, K-Rep, SEWA, FWWB, PRADAN, CDS, Bandhan etc. their basic ideologies of financial service were to help the poor and vulnerable people to over-come from poverty and to provide them standard life style and dignity. Thus, Government of India also implemented many policy initiatives from time to time and SGSY programme is one such remarkable and biggest poverty alleviation programme as of now and financial services are extended through SHGs to the member beneficiaries.

On the contrary, the recent controversies and competition in the microfinance sector diverting the path of microfinance in different ways and only to the commercial vehicle and the poor people for them is mere a number to their data-sheet. Sriram, (2010), Goldberg & Pallandini, (2010), exposed in their studies, how microfinance becomes an earning or commercial vehicle, rather than helping poor and expressed that, the commercial model of microfinance in india with its minimalist and standerdised model of lending, have been grown like bubble and run into trouble (Sriram, 2010). Many microfinance commercial organisations have entered the market

2 BRAC-Bangladesh Rural Advancement Committee; BRI- Bank Rakyat Indonesia; FINCA-Foundation for International Community Assistance; ACCION-Americans for Community Cooperation in Other Nations; CARE-Co-operative for Assistance and Relief Everywhere; SEWA-Self-Employed Women's Association of India; FWWB-Friends of Women's World Banking; PRADAN-Professional Assistance for Development Action; CDS-Community Development Society.

in search of profits and are competing to lend the poor. In the process, they have put-off the 'understanding' about the needs of the poor aside and have started chasing targets and numbers. For these institutions the poor are not seen as human beings having individual identies and needs. Instead, they are seen as data points that add-up in their profit statement. The anxeity for growth is dicteted by the fact that the investor in the market based models are impatient looking for high returns and then exist.In some states, the number of microfinance loans exceed the number of poor households. So, are all these loans actually given to the poor people? The incidence took place in Andhra Pradesh, where 30 farmers had committed suicide within a span of 45 days in 2010, after a few MFIs used coercive recovery tactics is another example in this regard (Patra D. R., 2011).

One rather obvious outcome of the commercialization trajectory in microfinance has been the rise of a group of 'microfinance millionaires' and though their subsequent fame and public speaking and consulting services have made them a wealthy and influential individual, Muhammad Yunus is also noted for having extracted little personal financial reward directly from Grameen Bank he founded (Bateman, 2010). So, we can quote, as Devinder Sharma (Indian Agricultural Economist), describes it:

'There can be no better business opportunity than starting a microfinance instititION with assured returnes and 100 percent loan recovery. You can even think of trading on the stock exchange after a couple of years. And still more importantly, you can hold your head high and claim that you are helping the poor to come out of the poverty trap. You don't have to feel ashamed and morally guilty. The elite in the society have knowingly (or unknowingly) given you a license to loot'.

Thus, recognising the facts about the unethical practices in the microfinance sector and microfinance services today is not only relying with the concept of helping poor, but endorsing its other side where lenders makes no compromise to recover the amount of loans even at the cost of life of borrowers. Again, the terms and conditions of funding agencies, banks etc. sometimes leave no option for the intermediaries or MFIs rather to adopt strict behaviours and due to lack of proper 'Microfinance Regulatory Bill'the sector is moving faster towards the interest and motives of lenders rather than considering how that will impact on the borrowers (Lyman, 2011).

8.4. Sustainability Issues and SHG Models:

Microfinance services in India are mainly delivering under the SHG models, the only effective and dominating models for the poor, especially for women, and it has made magnificent progress in reaching the poor people; in disbursement of loans, savings, income generation, self-employment, empowerment among the rural poor, where women beneficiaries comprise the lion's share. As the SHG models comprise three credit linkage models and all the models are unique with their differentiating features or nature. And all these models are functional in our country with different gradations of performance and proportion on developmental parameters (Ghosh, 2012).Though, all the models were developed to meet primarily the credit requirement of SHGs, but in practice all the models are not equally successful in providing microfinance services due to their differentiating features and working system, thus SHGs under each of these models have to suffer from some sort of problems as well as by the intermediaries of SHGs for the rush of groups and with various problems of member. Thus, introspection to models is necessary to find out the real problems with sustainability of SHGs:

SHG Model-I: Under this model, the banks themselves form, nurture, manage and finance the groups, but most of the banks in our country are already over work loaded and for them it becomes problematic and for the rush of groups more than the managing capacity of a branch, the groups have to suffer from service and that leads to sustainability problem. Again, the condition of bank branches of Northeast is most critical as it is lagging behind in almost all critical banking outreach indicators and branches are already over populated by its customer (Sarma, 2010). Again, frequent change of bank staff and introduction of new staff takes time to cope with the new environment and people and SHGs have to suffer in the mean-time. Further, language, behaviors of dealing staffs, education levels of members, frequent visits to bank branches by women members, banking procedures, delays in sanctioning loans, problems with repayment of loans by all the members of groups to qualify the groups for next loans, lack of follow-up and training etc. also stand as strong reasons for the SHG members and as well as for the banks, towards the problems of sustainability.

SHG Model-II: In this model the task of formation, nurturing, promotion, management and training of SHGs are undertaken by both government and non-government agencies like Blocks, DRDA, NGOs, and MFIs etc. and after a certain period the groups are linked to banks for financial assistance and then banks directly finance the SHGs. As some agencies are acting as mediocre between SHGs and Banks, the SHGs have to wait to receive financial assistance from banks. Again, the promotional criteria, period of promotion, selection of members, grading of SHGs are not uniformly followed for all SHGs in all areas. Further, as the responsibility and power of management of groups are vested with external agencies, the chances of anomalies and corruptions are open in this system. Despite these odds, this is the main model of microfinance in terms of reaching poor people, SHG formation, loan disbursed, savings etc. in our country, [(Kropp & Suran, 2002), (Rao, 2009), (Tankha, 2002), (Veerashekharappa, Shylendra, & Guha, 2009), (Arora & Meenu, 2012)].

SHG Model-III: To avoid the problems with banks and the areas where bank branches are not sufficient or limited, the third SHG models were developed to link SHGs of those areas. Here, some NGOs or MFIs are provided with bulk loans for on-lending to the SHGs, they form, nurture and manage the SHG as well as directly avail loans to them. The intermediaries under this model have the autonomy to formulate rules and regulation for the SHGs and the groups are bound to follow them. Thus, pressure of repayment of loans, strict MFIs rules, peer-pressure etc. reached to the level of harassment in some cases and use of coercive behaviors is also reported in many studies. Again, 'Rush to Grow', the competition among the MFIs to reach more and more SHGs and to finance them with only profit motive, make them forget about the real motive behind microfinance and for them the poor are not human beings, rather a number to their data-sheet and earning means. In the process, they select wrong beneficiaries and poorest of the poor remain out of the reach of microfinance services in many areas. Further, many MFIs feel microfinance is the best investment alternative for them to invest for good return. Over-lending and multiple-lending are some other reasons, which actually bring troubles for the members and to the groups and in long run their groups unable to repay the loans, thus not survive. Again, microfinance programme is progressing in those areas of the country where there is strong base of formal financial institutions or banks. MFIs were expected to reach those areas where the formal banking system failed to reach the poor people and they have to depend on the money-lenders in order to meet their financial requirement. But actually, many big MFIs are activating in those states where the banking network is very strong and that being established by a correlation study. The value of correlation coefficient between bank branch network and microfinance programme outreach under SHG-Bank Linkage (i.e. model-I & II) and MFI model (i.e. model-III) found is 0.788 and 0.729 respectively. So, it's revealed that, spread of microfinance programme is highly positively correlated with the spread of bank branch network (Shodhganga).Thus, the issue lies with the sustainability of SHGs under this model.

Thus, some limitations in the models as well as in the practice have created some problems and the SHG which can face and tackle those problems can only survive and the rest face many problems with their sustainability.

8.5.Problems of Sustainability with the SHGs in Barpeta District:

The above facts and stories with the sustainability problems of SHGs in our country, exposed to know the conditions and position of SHGs in Barpeta District of Assam. Further, from the survey and records at the officials and from the branches of MFIs in the district, it is found that, SHGs in the district in all 44.87 percent are defunct[3] and only 55.13 percent SHGs are actively working in the district during the period of study. Again, the condition is worst in case of SHGs formed and run under model-II than model-III in the district, as only 51.02 percent SHGs under model-II are found active and that under model-III is 92.44 percent in average during the period of study. Thus, SHGs sustainability position in the district is found poor and the sustainability problems are more acute and alarming with the SHGs under model-II in the district. So efforts were made during the survey to know the real scenario and problems with the sustainability of SHGs and

3 Defunct SHG means the SHGs which were formed but are not actively working and as per information from the intermediaries those groups are not in connection with them and have been listed as defunct and no further transaction took place with those SHGs. The percentages of active and defunct SHGs of Barpeta District have been calculated from Table-6.1, of Chapter-6 of this study.

Table-8. 1. Analyzing Various Problems Faced & Reported by SHGs in Barpeta District:

Types of Problems[4] Faced by *SHGs*:	SHG Models & Intermediaries:							Total (under SHG Model-II & III)	
	Under SHG Model-II		Under SHG Model-III						
			1.	2.	3.	1+2+3			
	Blocks SHGs	% of SHGs[5]	ASOMI SHGs	Bandhan SHGs	RGVN SHGs	Total	% of SHGs	No's of SHGs	% of SHGs
1. Lack of Co-operation among the SHG members:	30	18.29	6	5	3	14	56.0	44	23.16
2. Problem with training provided to SHG:	146	89.02	13	6	3	22	88.0	168	88.42
3. Loan amount not received on time:	158	96.34	14	5	3	22	88.0	180	98.24
4. Limited/Poor Amount of Credit/loan:	128	78.05	8	5	2	15	6.00	143	85.26
5. Problems with attending Regular group meetings:	12	7.32	6	6	1	13	52.0	25	13.16
6. Re-payment of loan/ loan installments	27	16.46	8	5	0	13	52.0	40	21.05

7. Interest rate charged on credit/ loan:	0	0	0	3	0	3	12.0	3	1.58
8. Pressure from intermediaries /promotional agencies:	8	4.88	0	3	0	3	12.0	11	5.79
9. Domestic work-load of SHG members:	24	14.63	6	8	2	16	64.0	40	21.05
10. Unwillingness & lack of support of family:	0	0	2	3	1	6	24.0	3	3.16
11. Social factors and societal out-look:	12	7.32	0	3	0	3	12.0	15	7.89
12. To cope with official procedures/ norms:	61	37.20	3	6	2	11	44.0	72	37.89
13. Dealings with officers/ office staffs/banks staffs:	43	26.22	2	3	1	6	24.0	49	25.79
14. Languages problem/ communication barriers:	36	21.95	4	6	1	11	44.03	47	24.74
15. Unsatisfactory incomes and savings from SHG:	49	29.88	2	6	1	9	36.0	58	30.53
16. Records keeping/books of accounts maintenance:	12	7.32	11	8	2	21	84.0	33	17.37

Total Sample SHG	218	100	19	18	5	42	100	260	100
Total Sample SHG Reported as Got Some Problem:	164	75.23	14	8	3	25	59.52	189	72.69
% of SHGs Got Some Problem:	75.23	—	73.68	44.44	60.0		—	—	—

Source: Field Survey.

4 The list of problems have been ascertained and fixed from the pilot survey, talking with the dealing officials, staffs, banks and branches of MFIs of Barpeta District, experts, as well as from various studies on sustainability as secondary source of information.

5 Percentages (%) have been calculated out of the total SHGs reported as got some problem under model-II, i.e., out of 164 SHGs. *And the same under model-III have been calculated out of the SHGs who got problem under model-III, i.e.,out of 25 SHGs.

why such huge percentage of SHGs was defunct or inactive in the district? The efforts bring to light some very uncommon and interesting results. Again, some of the problems are very fundamental to the concept and service of microfinance, which generally claimed or believed as couldn't be the problems with sustainability of SHGs. Further, a list of some problems relating to sustainability was prepared before visiting the SHGs in the district and those issues of problems were determined on the basis of pilot survey and also with the consultation of various experts in the field of microfinance in the district. The results obtained in this regard has been presented in a tabular form and given as follows:

So, SHGs in the district are facing various problems of sustainability as reported and presented in the above table and some problems are more rigorous for their sustainability, which demand immediate action to mitigate and remove the same. Other problems are also there, but they are not such acute, but affecting in their smooth functioning of SHGs in the district. Thus, the major problems which have come-out are described as follows:

i. Most of the SHGs of Barpeta District have reported that, they did not get Amount of Loan / Credit on time and that has been reported by 95.24 percent SHGs of the district who got problems, which affected them every way in their functioning and because of this they fail to take timely decision. Again, this problem is more acute in case of SHGs under model-II in the district, where 96.34 percent SHGs have reported as they never obtained their loans on time and that really matters a lot in their working. The same in case of SHGs under model-III is 88 percent, which though comparatively less but remains an acute problems for their SHGs in the district.

ii. Next to that, 88.42 percent SHGs who got problems, have reported about the Training programme provided to them is either not understood by them or not benefited or no follow-up after the training. Again, the intermediaries or other agencies provide training either to one or two members of a group which is also not sufficient for the group and training to one or two members of the groups is considered as training for the whole group. And the trained members are advised to train the rest of the members of the group, but where the trained members themselves are unable to understand from the training, what they will train to their group members. As a result, the training become unfruitful and in most of the cases mere wastage of time and money. The problem with training is more or less same for the SHGs under both the SHG models in the district as given in the above table. Due to lack of proper and innovative training and motivation most of the SHGs in the district become spiritless for working with SHGs.

iii. The Limited Amount of Loan is another major problem of sustainability with the SHGs in the district, and 75.26 percent SHGs in the district have reported that they never obtained their required amount of loan/credit. It generally started from ₹10, 000 and on satisfactory utilization of that, next they availed double amount and so on. But those limited amounts are not sufficient for working in present day context and create hindrance in their working; because when the SHG needs more amount of loan they are not provided that, and whatever amount they obtained that is not sufficient. Due to lack of adequate amount of loans, the groups are unable to perform in the way they need to perform. The problem is more acute with the SHGs under model-II than model-III in the district, as 78.05 percent SHGs under model-II have reported it as serious problem for their survival and that is 60 percent as reported by the

SHGs under model-III in the district during the period of study. Thus, SHGs under model-II in the district suffer more from inadequacy of loan/credit than SHGs under model-III.

iv. As SHGs are linked to banks after a certain period of time and the groups have to deal with banks for financial assistance thereafter. So, effort were made to know, whether the groups got any problem in dealing with banking procedures etc. and 37.89 percent SHGs have reported as they got problems in dealing with banking procedures in the district and the same for the SHGs under model-III is found a bit more to 44 percent, as reported by them as the problem with sustainability of SHGs.

v. Unsatisfactory income and savings is also found as strong reasons or problem with sustainability. As the groups reported, they do not obtained even little satisfactory income and savings from the SHGs in terms of their labour and other effort made for it, and that have been reported by 30.53 percent SHGs under both the models and members' interest level have come down due to that, as they do not found the income as they thought at the time of formation of their SHG.

vi. Others problems of sustainability like 'lack of cooperation among members' which hampers in timely decision-making and arise disagreement leading to break-up of groups. Dealing with officials and staffs and their rough and tuff behaviors also create some problem. As the SHG members are mostly women in the district and they are of soft-spoken and listener. It has been reported by the SHGs that, behaviors of the banks' staff disturb them and in some cases they stop visiting banks only because of some staffs behavior. The 'language' problem is also reported by SHGs as the banks staffs are frequently changed and it takes time to cope with the new people and languages and in the process, the SHGs have to suffer a lot. Although these problems are not very acute with sustainability of SHGs, but, also stand as reasons for the same as reported by the SHGs in the district under both the models with little variations as given in the above table.

vii. Thus, of the total Sample (i.e., 260 SHGs), 72.69 percent SHGs have reported as they faced various problems for their sustainability, under both the models. But, SHGs under the supervision of Blocks of Barpeta District i.e., under model-II faced more problems compared to the SHGs of other selected intermediaries under model-III. As 75.23 percent SHGs under model-II have reported to got problems with sustainability, which is even more than the total percentage under both the models and the same under model-III have been reported by 59.62 percent SHGs, which is comparatively less than model-II, in the district during the period of study. So, the SHGs under model-II are suffering more with problems of sustainability, as such, nearly half of the total SHGs under this model are found defunct during the period of study. Again, among the selected intermediaries under model-III, the SHGs under the supervision of Bandhan have reported as faced least problems with sustainability and that is expressed by only 44.44 percent of SHGs, followed by 60 percent SHGs under RGVN and 73.68 percent SHGs under ASOMI in the district during the period of study.

8.6. Analyzing Problems with the Core Factors[6] of SHG:

During field survey the SHGs were asked, whether they got any problem with the core factors like Thrift/Savings, Credit/Loan, Group (Demographic) and Management. And the result obtained in this regards has been present in the following table:

6 Core factors identifies and considered here are the generally considered important factors for proper working of SHGs and without these basic factor SHGs will not be sustained.

Table-8.2 (A): Analyzing whether SHGs are Facing Problem with Core Factors of SHG:

SHG Models & Intermediaries		SHGs Comments: Problems Faced	SHGs Comments: Problems Not Faced	Total SHGs
Under SHG Model-II	Blocks	164	54	218
	%	75.23	24.77	100
Under SHG Model-III	ASOMI	15	4	19
	Bandhan	8	10	18
	RGVN	3	2	5
	Total	26	16	24
	%	61.90	38.10	100
Total (Under Model-II & III)		190	70	260
% (total of Model-II & III)		73.08	26.92	100

Source: Field Survey.

It has been found that, 73.08 percent of the total SHGs under both the models have reported as they faced problems with those core factors of SHGs as mentioned in the above table. The problems are more acute with the SHGs under model-II in the district, where 75.23 percent of their SHGs have reported as being faced with problems even with the core factors of SHGs. Again, the same among the SHGs under model-III have been reported by 61.90 percent SHGs in the district during the period of study.

Further, an analysis has been made to know exactly with which core factor the SHGs are getting problems. From the further analysis, it is found that, 77.89 percent SHGs under both the models have reported as they are having problems with the very fundamental factor of microfinance i.e. with ‘Micro-Credit’. As per their report, they did not get adequate amount of loan/credit from the banks or intermediaries as required by them and the inadequate amount of credit has weaken their performance. Again, the position of SHGs under model-II and III are more or less same in the district as reported by the SHGs, which is reported by 78.05 and 76.92 percent SHGs respectively, under each model in the district. The response to other core factors is presented in the following table:

Table-8.2 (B). Analyzing Sustainability Performance of SHGs with the Core Factors of Microfinance:

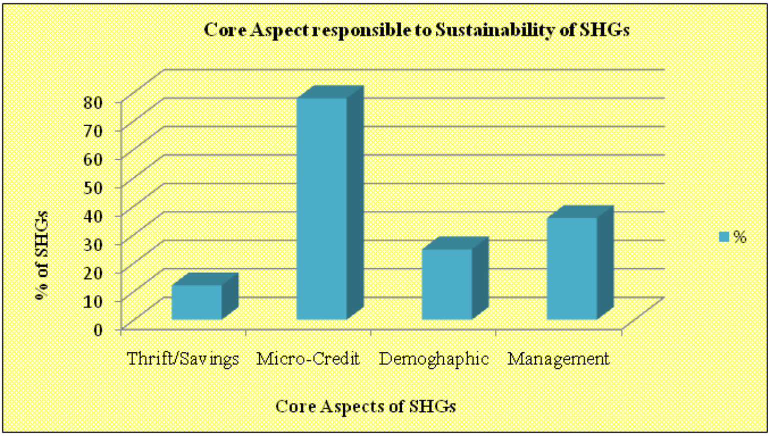
SHG Models & Intermediaries		Some Core factors				Total SHG Faced problem
		Thrift/ Savings	Micro-credit	Group (Demographic)	Management	
SHG Model-II	Blocks	18	128	36	55	164
	%	10.98	78.05	21.95	33.54	100
SHG Model-III	ASOMI	1	9	5	6	15
	Bandhan	3	8	5	5	8
	RGVN	1	3	1	2	3
	Total	5	20	11	13	26
	%	19.23	76.92	42.31	50.0	100
Total (Under Model-II & III)		23	148	47	68	190
% Totel of (Model-II & III)		12.11	77.89	24.74	35.79	100

Source: Field Survey.

The problems relating to management of SHG is also reported by 35.79 percent SHGs under both the models in the district as having problem with 'Management of Group'. Again, SHGs under model-III faced more management problems as reported by its 50 percent SHGs and the same under model-II is reported by only 33.54 percent SHGs in the district. Though a group leader exists in every group, even the groups are often suffering from group management like quarrel among the members, distrust, misappropriation of funds, absent or late arrival of members in the regular group meeting etc. and this generally happens due to poor leadership quality of the group leader. The demographic factors like caste, language, social background, religion, etc., of members also matters and stand as reasons behind the problems of sustainability of SHGs in the district as reported by 24.74 percent SHGs under both the models in the district. Again, the demographic factor is more concern as problem of sustainability by the SHGs under model-III, as it is reported by 42.31 percent SHGs and the same under model-II have been reported by 21.95 percent SHGs in the district during the period of study. The provision of savings, though not rigorously reported as a problem to sustainability, but it can be observed from the table that, SHG under model-III is a bit more concern with their savings as to the problem of sustainability for their SHGs than SHGs under model-II in the district.

A diagrammatic presentation has been made with help of core factors towards sustainability problem to show the relative position and importance of core aspects to the sustainability of SHGs in the district is as follows:

Figure-8.1. Showing Problems of Sustainability with Core Factors of SHG in the District:



Source: Table-8.2 (B).

Thus, micro-credit stands as the major problem with sustainability of SHGs in the district during the period of study.

8.7. Analyzing Multiple Memberships as a Problem of Sustainability of SHGs:

The growing service base of microfinance and involvement of various MFIs, big or small, with profit models as investment hub to the microfinance sector developed competition among them and the spirit of 'rush to grow' to have more client base for profit, brings some choice among the people involving in microfinance or in SHGs to think for an alternative to take more benefit (Ghate, 2009). As such, members are also involving with other or in multiple groups to have more financial assistance, which is against the spirit of SHG. They even do not realize about their re-payment and cost of credit. So, efforts were made during the period of study to know, whether the SHG members of the groups also belong to some other groups or do they have multiple memberships? And they were asked, with some direct and indirect approach and the results obtained are present in the following table:

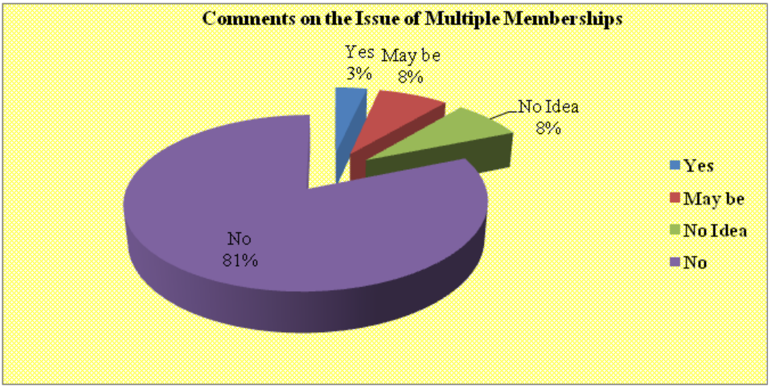
Table-8.3. Analyzing whether SHG members are having Multiple Memberships?

SHG Models & Intermediaries		Response of SHGs				Total SHG
		Yes	May be	No idea	No	
SHG Model-II	Blocks	6	12	10	190	218
	%	2.75	5.50	4.59	87.16	100
	ASOMI	2	2	4	11	19
SHG Model-III	Bandhan	1	4	5	8	18
	RGVN	0	2	1	2	5
	Total	3	8	10	21	42
	%	7.14	19.05	23.81	50.0	100
Total (Under Model-II & III)		9	20	20	211	260
% Totel of (Model-II & III)		3.46	7.69	7.69	81.16	100

Source: Field Survey.

The groups might have some idea about the restriction of multiple memberships, as such most of them have not replied very clearly and on requested most of the SHGs i.e., 81.16 percent SHGs under both the models have said ‘No’ they do not have membership with any other groups, and 87.16 percent SHGs under model-II are denied about having multiple memberships, and that for the SHGs under model-III is only 50 percent. More openly, 3.46 percent SHGs under both the models have revealed as having memberships with other groups simultaneously. And that, for SHGs under model-III records to 7.14 percent and 2.75 percent under model-II in the district. A total of 7.69 percent SHGs in the district under both the models have been replied as ‘May be’ and ‘No Idea’ on the issue, but they might have hidden the facts for fear of any problems which may arise from their intermediaries in case of leakage of that information. As their intention was not clear while the groups were asking the question to have right answer. Multiple memberships of members weaken their performance in the groups, as they have to manage all the groups’ activity within their limited time that reduces group-wise time allocation. Again, for linking with multiple groups the members like to give more quality time and effort to those groups where they find group-cohesiveness and other groups have to suffer for sustainability.

Figure-8.2. Showing Comments on the Issue of Multiple Memberships of SHG Members:



Source: Table-8.3.

Note: The fractions of the percentages have rebounded-off to nearest integer.

So, SHGs in majority expressed their views as they don't have multiple memberships or involvement with any other groups.

8.8. Efforts made to mitigate the Problems with Sustainability of SHGs in the District:

After going through the problems of sustainability of SHGs in the district, it is found that SHGs are suffering from many such problems which are detrimental for the SHGs to sustain for a long time. So, efforts to mitigate those problems are equally very important for the sustainability of SHGs in the district. Thus, effort were made during the survey to know, how far the intermediaries i.e. NGOs, MFIs, Blocks, DRDA, Banks, other agencies made effort to mitigate those acute problems of sustainability, so that SHGs of the district can be sustained for long period of time. The results obtained from the respondent groups are presented in the following table:

Table-8.4 (A). Analyzing the Effort Made or not by the Intermediaries to Sort-out the Problems:

SHG Models & Intermediaries		Effort Made? Response of SHGs		Total SHGs
		Yes	No	
Under SHG Model-II	Blocks	181	37	218
	%	83.03	16.97	100
Under SHG Model-III	ASOMI	15	4	19
	Bandhan	8	10	18
	RGVN	3	2	5
	Total	26	16	42
	%	61.90	38.10	100
Total (Under Model-II & III)		190	70	260
% (total of Model-II & III)		73.08	26.92	100

Source: Field Survey.

As depicting in the table, that 79.62 percent SHGs under both the models replied that, efforts were made to sort-out the problems relating to sustainability of SHGs in the district. Again, as per their report more efforts were made for the SHGs under model-II in the district than for the SHGs under model-III, as 83.03 percent SHGs under model-II have reported about the efforts made by their intermediaries to sort-out the problems, where only 61.90 percent SHGs under model-III said about efforts made by their intermediaries during the period of study. Surprisingly, despite providing more efforts towards mitigating problems of the SHGs under model-II, the SHGs under this model are around 50 percent are found defunct during the period of study. Thus, the frequency and qualities of those efforts made by their intermediaries towards sustainability of SHGs in the district leaves question marks as, are the effort made by the intermediaries were sufficient? The SHGs in the district were asked about the ‘frequency’ of the efforts made for them to mitigate their problems or how many time they have obtained such supporting services. The results obtained in this regard have been presented in the following table:

Table-8.4 (B). Analyzing How Frequently Effort Made by the Intermediaries to Sort-out the Problems of Sustainability:

SHG Models & Intermediaries		Frequency of Efforts made by the Intermediaries[7]				Total SHG
		Very Poor (up to 25%) Once in entire period	Seldom (from 25 to 50%) (Once/twice p.a.)	Sometimes (from 50 to75%) (Quarterly)	Always (from 75 to100%) (Every month)	
SHG Model-II	Blocks	144	25	12	0	181
	%	79.56	13.81	6.63	0	100
SHG Model-III	ASOMI	9	4	2	0	15
	Bandhan	5	2	1	0	8
	RGVN	2	1	0	0	3
	Total	16	7	3	0	26
	%	61.54	26.92	11.54	0	100
Total (Under Model-II & III)		160	32	15	0	207
% Total of (Model-II & III)		77.29	15.46	7.25	0	100

Source: Field Survey.

7 Here only those SHGs have been considered who replied as 'Yes' or 'Effort Made' by their intermediaries to remove their problems as per Table-5.3 (A) above.

So, very surprisingly the SHGs under both the models in the district have reported as they have obtained such support of efforts made only once during the period of study and some have received such service once during their entire period untill now. Thus, 77.29 percent SHGs have received such service once during the period of study, 15.46 percent SHGs have received such services either once or twice yearly or 7.25 percent SHGs have obtained such services quarterly under both the models in the district during the period of study. Further, details model-wise classifications have also been presented in the above table.

8.9. Analyzing Sufficiency level of those measures taken for the SHGs in the District:

Again, the SHGs in the district were asked about sufficiency level of the supporting measures taken by the recognized bodies or intermediaries towards solving the problems with sustainability of SHGs in the district and mixed response were found and the details of result found from the SHGs on the issue are given in the following table:

Table -8.5. Analyzing Sufficiency Level of the Supporting Measures taken by the recognized Body towards Solving the Problems with Sustainability of SHGs:

SHG Models & Intermediaries of SHGs		Efficiency factors at 5 point scale:					Total Service[8] Obtained SHG
		Not Sufficient (Up to 20%)	Seldom & Sometimes (Poor) (From 20% to 40%)	Partly Sufficient (From 40 to 60%)	Sufficient (From 60 to 80%)	Very Effective (If, 100 %)	
SHG Model-II	Block	6	17	8	4	2	37
	%	16.22	45.95	21.62	10.81	5.41	100
SHG Model-III	ASOMI	0	3	2	1	0	6
	Bandhan	0	1	2	0	0	3
	RGVN	0	0	1	0	0	1
	Total	0	4	5	1	0	10
	%	0	40.0	50.0	10.0	0	100
Total SGS (Model-II & III)		6	21	13	5	2	47
% (Model-II & III)		12.77	44.67	27.66	10.64	4.26	100

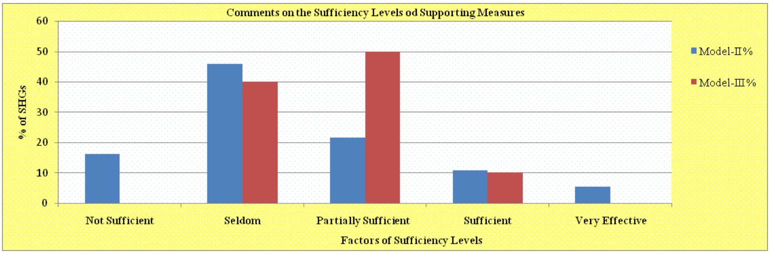
8 Here only those SHGs of the district have been considered which falls in the category of 'Seldom' & 'Sometimes' as per table-8.4 (A)

Source: Field Survey.

It is revealed from the table that, SHGs are mostly reported as effort made for them are ‘seldom and sometimes’ so sufficiency level is very poor for them as a total of 44.67 percent SHGs under both the models in the district have expressed the sufficiency level of the supporting measures made is ‘very poor’. Followed by 27.66 percent SHGs under both the models who said they feel partially sufficient about those measures taken for mitigating the problems with sustainability of SHGs. Again, 10.46 percent and 4.26 percent SHGs feel those measures as ‘Sufficient’ and ‘Very Effective’ and helpful for mitigating the problems with sustainability of SHGs in the district. The details model-wise break-ups are also given in the above table-8.5.

A model-wise diagrammatic presentation has made to show the relative position on the sufficiency level of supporting measures taken for the SHGs in the district as follows:

Figure-8.3. Showing SHGs Comments on the Sufficiency Levels of Measures taken towards the SHGs in the District:



Source: Table -8.5.

8.10. Analyzing the Needs for Changes in the Services for SHGs Sustainability in the District:

After thorough analysis of the problems of sustainability with the SHGs in the district, the SHGs were asked about the change and development in the existing system they are looking for or

Table-8.6. Analyzing the Need for Change and Services Demanded by the SHGs of Barpeta District:

SHG Models & Intermediaries SHGs		Factors of Service Demanded by the SHGs:						Total SHG
		Easy Credit flow	Prompt Loan	Increase Loan slabs	Training	Mobile Micro-credit	Re-structure of Re-payment system	
SHG Model-II	Block	20	35	37	27	9	12	37
	%[9]	54.05	94.59	100	72.97	24.32	32.43	100
SHG Model-III	ASOMI	6	3	5	4	1	1	6
	Bandhan	3	3	3	1	2	2	3
	RGVN	1	1	1	1	1	1	1
	Total	10	7	9	6	4	4	10
	%	100	70	90	60	40	40	100
Total SGS (Model-II & III)		30	42	46	33	13	16	47
% (Model-II & III)		63.83	89.36	97.87	70.21	27.66	34.04	100

Source: Field Survey.

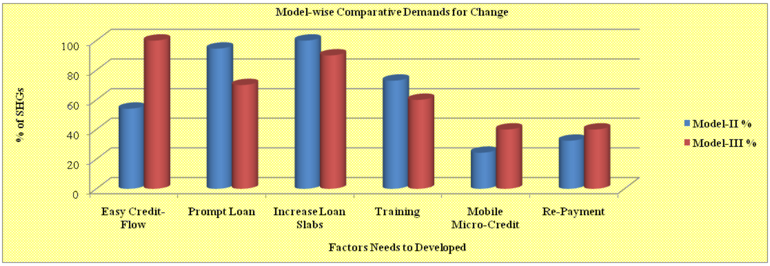
9 the percentage have been calculated every time out of the total SHGs, as the SHGs cited multiple demands & needs for change and development.

needed to strengthen the existing microfinance services. And the response obtained from them is presented in the following table:

It is clearly revealed in the table that, SHGs in the district mostly demands to increase the loan slabs or the quantum of loans/credit for the SHGs and that have been reported by 97.87 percent SHGs under both the models and more importantly by all the SHGs under model-II, and by 90 percent SHGs under model-III in the district. Followed by the factor 'Prompt Loan', i.e., SHGs wants they should be provided the amount of loan in time and as promptly as possible and unnecessary delays should be avoided, if possible spot payment of loan is more preferable as women members need not waste time for visiting the offices of MFIs and banks in that case. Bandhan has already stated the practice of spot delivery of loan to their SHG members in the district. Effective 'Training' facilities should be provided as it is reported by 70.21 percent SHGs under both models in the district and amount credit should be easily provided to them as reported by 63.83 percent SHGs under both the models, the procedures with banks is also time consuming and troublesome for them.

A diagrammatic presentation has also been made to show the model-wise relative demands for change and development needed in the district as follows:

Figure-8.4. Showing Model-wise Comparative Demand for Changes in the Service factors of Microfinance:



Source: Table-8.6.

Thus, demand for change and improvements in the service factors to have more quality services are more or less neck to neck under both the models in the district, but under model-II the SHGs' demands for changes is more than under model-III. It also signifies about poor performance of the service factors or quality of service under model-II for their SHGs is comparatively unscrupulous than that of under model-III in the district during the period of study.

8.11. Problems with the SHGs Intermediaries in the Barpeta District:

Success and Sustainability of SHGs is a collective process, where SHG members, Intermediaries, Banks, Promotional Institutions, other Agencies both government and non-government etc. have to perform their job actively and in balance manner. Again, active service, effort or support from some of them and inactive role of others will hamper in the process and that will results in poor performance of SHGs and become threat to survival of SHGs. Because, success and sustainability of SHGs is a 'chain process' where everyone has to perform their job sincerely with dedication and honesty. Thus, to sustain SHGs, they should be properly guided by the promotional institutions as regards management of groups, income generation, savings, utilization of credit, records keeping etc. the fundamental issues with every SHG. So that, SHGs can works with spirit and confidence to reach to their desired goals. But, as reported by the SHGs and from others findings of the studies, the role of those intermediaries who involve in from the formation of SHGs to the linkage and for other follow-up activities, is not clear and reported as inactive in most of the cases in the district during the period of survey. Thus, the point arises, whether those intermediaries/departments/agencies etc. are unwilling to work with the SHGs or they got some problems in this regard? Thus, effort were made to know from the intermediaries who deals with SHGs in the district, which comprises 11 Development Blocks, 3 branches of ASOMI, and 3 branches of Bandhan and 1 branch of RGVN, from their respective branch manager or from officer-in-charge, to know if they got some problems to working with SHG models and with SHGs. Again, the officials* were asked questions in two sets, in the first set they were asked about their feedback on various issues of performance of SHG models and SHGs and in the second set they were asked about, if they faced any problems in dealing with the provision of SHG models and SHGs in their areas of operation and their response were recorded in five point scale designed for the purpose. The results obtained from them are present in the tabular form as follows:

8.12. Analyzing the Officers Feedbacks on the Performance of SHG models and SHGs in Barpeta District:

The officers feed-backs on various matters of performance of SHG models and that of SHGs in Barpeta District are presented in the following table-8.7, where mixed response were found, but most of the comments fall either in the category of ‘Average’,

Table-8.7. Officers Feedbacks on Various Factors of SHG Models and SHGs in Barpeta District of Assam:

Sl. No	Questions	Grades[10]/ Points (Expressed in %)				
		Poor	Below Average	Average	Good	Excellent
1.	What is your comment on the performance SHG Models?	0	16.67%	33.33%	16.67%	38.89%
2.	How SHG Models are doing/performing in your area of operations?	5.55%	16.67%	27.78%	27.78%	22.22%
3.	How the SHG members are regarding re-payments of their loans?	11.12%	0	11.11%	44.44%	33.33%
4.	How the Models are helpful in giving access to income generation to the SHG members in your area of operations?	5.56%	16.67%	27.77%	38.89%	11.11%
5.	How the Models are performing in giving Self-Employment to SHG members in your area of operation?	11.11%	22.22%	16.67%	44.44%	5.56%
6.	How the Models are performing in the development of economic conditions of SHG members in your area of operations?	11.11%	11.11%	16.67.0%	38.89.0%	22.22%
7.	How the Models are performing in developing the Savings habits among the SHG members in your area of operations?	5.56%	16.67%	16.67%	27.78%	33.33%

8.	How the SHG Models are performing as regards financial inclusions of SHG members i.e., Opening Bank A/c, Post-office savings/recurring A/c, taking Insurance policies etc. in your area of operation?	11.12%	11.11%	11.11%	33.33%	33.33%
9.	How the Models are performing in women Empowerment, confidence building, and women mobility, in reducing domestic violence of women in your area of operations?	5.56%	11.11%	22.22%	38.89%	22.22%
10	How the SHG Models are performing in the formation of Social Capital?	5.56%	11.11%	22.22%	38.89%	22.22%
11	What grade you would like to offer to the concept of SHG Models, as you are deals with it and considering its performance in your area of operation?	0	11.11%	27.78%	44.44%	22.22%

Source: Field Survey

10 Grades, if answered: Excellent-5, Good- 4, Average- 3, Below Average- 2, Poor- 1. *Here officers mean the officers in charge of the programme/BDOs/ Loan officers/heads of MFIs etc

'Good' and 'Excellent' with different percentage of performance as given in the table:

8.13. Analyzing the Officers Feedbacks on the Problems with Sustainability of SHGs in Barpeta District:

Recognizing various problems of sustainability with SHGs in Barpeta District as mentioned above, the officers who deal in microfinance and are actively connected with SHGs in the

Table-8.8. Officers Feed-backs about the Problems of Sustainability with SHGs in Barpeta District:

Sl. No	Problems of Sustainability	Grades[11]/ Points (Expressed in %)				
		No	Less	Moderate	Rigorous	Beyond Control
1.	Problems as regard formation of Groups:	44.44%	27.78%	22.22%	5.56%	0
2.	Problems as regard Management of Groups:	27.78%	50.0%	11.11%	5.56%	5.56%
3.	Problems with Size of Groups:	50.0%	27.78%	16.67%	5.56%	0
4.	Problems in providing loan to Groups:	27.78%	16.67%	33.33%	22.22%	0
5.	Problems with recovery of micro-credits/loans:	44.44%	33.33%	11.11%	11.11%	0
6.	Problems with Savings of Groups	44.44%	27.78%	16.67%	11.11%	0
7.	Problems with maintenance of Accounts & Records of groups:	27.78%	5.56%	44.44%	11.11%	5.56%
8.	Problems of/regarding willingness of members to work:	27.78%	16.67%	44.44%	5.56%	0

11 Answers in five points scale: Grades, if the problem is: Beyond Control-5; Rigorous- 4; Moderate-3; Less-2; No problem-1.

9.	Problems in providing training to groups/ members:	50.0%	27.78%	5.56%	11.11%	5.56%
10	Problems from male counter-part for women SHGs:	50.0%	22.22%	27.78%	5.56%	0
11	Problems with your work-loads for SHGs:	22.22%	33.33%	22.22%	11.11%	11.11%
12	Pressure of work-done from upper-levels:	33.33%	11.11%	33.33%	22.22%	0

Source: Field Survey

district were asked about the sustainability problems with their SHGs and mixed responses were found from them which are present in a tabular form below in Table-8.8.

8.14. Suggestions from Officials/Experts towards Minimizing the Problems of Sustainability with SHGs in the District:

After recording their feed-backs on issues of problems with sustainability of SHGs in the district, the officers were also asked for their suggestion to mitigate and minimize those problems relating to sustainability of SHGs in the district and they provided some valuable suggestion to cope with the problems of sustainability of SHGs in the district. Again, the suggestions in common have been grouped for the convenience and are presented as below:

i. Proper training should be provided to all the members of groups and preferably training should be arranged in the local areas of SHG members, so that all members can attend the training. Training needs to be more realistic, training on small project, small/micro industry formation etc. is very important.

ii. Amount of loan should be increased with timely disbursement; further accessibility and availability of loans have to be strengthened.

iii. Some provisions regarding awareness generation about microfinance and SHGs are very important for the growth and development of microfinance and to bring more and more needy people under the ambit of SHGs.

iv. MFIs/NGOs/Agencies deal in microfinance need to act in coordination rather than competition, for extending more quality and needful services including marketing facilities, product design and development, value added products etc. and along with these members education, environmental protection etc. as auxiliary activities can also be shoulder for having overall sustainability, rather relying only with the financial services. So, they need to be more generous and positive towards SHG members and should articulate some mechanism for removing the problems with SHGs to boost them to work-hard for their betterment and also for the society, because the role of these intermediaries (i.e., MFIs/NGOs/Agencies) are very important to uplift the performance of SHGs.

8.15. Conclusion:

Thus, to restore sustainability of SHGs in the district, the problems with SHGs need to be removed or minimized at the earliest. As SHGs in the district are suffering from many problems of sustainability as mentioned above, but most importantly a few of them which have been identified from the study are the problems with delays in disbursement of loans, trainings of SHGs, insufficient amount of loan/credit, small slabs of loans, problems with maintenance of books of accounts, dealings with banks and official procedure, language and banks staff, unsatisfactory income and savings, lack of cooperation among the members, repayments of loans and domestic work-loads which stand as main problems with sustainability of SHGs in the district during the period of study. Further, among the selected core factors of SHGs i.e., micro-credit, savings, groups and management, the problems with 'micro-credit' is found as the mostly cited problems with sustainability in the district, followed by problems with group management and groups or demographic factors. The SHGs with problems in the district are mostly suffering from problem of shortage of credit facilities from their intermediaries and if this is taken care of, than the problems with sustainability of SHGs will reduce to a greater extent in the district, along with that, realistic and quality centric training facilities needs to be provided to the SHGs. Though, some efforts have been made to resolve the problems with sustainability of SHGs in the district, but on close observation and from the assessment of training obtained/ attended SHGs members it is found that, those efforts are not sufficient to mitigate the problems with sustainability of SHGs in the district.

Further, some problems with sustainability have also been recognized by the intermediaries of SHGs in the district and feel alarming to restore the active performance of SHG. But, they have come-up with some valuable suggestions to mitigate and minimize those problems of sustainability with the SHGs and also suggested to work more liberally with bold objective for the betterment of SHGs and for the society at large, as the dealing MFIs/NGOs/Agencies in the district could do a lot for

Summary, Suggestions and Conclusion

9.1. Summary of the Findings:
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   9.1.b. Microfinance under SHG Models in India:
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9.1.f. Problems with Sustainability:
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Chapter - 9

Summary, Suggestions and Conclusion

This chapter presents summary, suggestions and conclusion of the study. Microfinance programmes have witnessed phenomenal growth in India in the past few years. The Study has revealed how microfinance services, popularly under the SHG models, are helping the poor and women in various ways. India now occupies a significant place and a niche in global microfinance through the promotion of the self-help groups (SHGs) and the home grown SHG-Bank Linkage (SBL) models. The SHG models offer greater promise and potential to address poverty as it is focused on building social capital through providing access to financial services through linking with the mainstream financial system. In the first part of this chapter detailed summary of findings, under major headings and sub-headings have been presented, in the second part, some important suggestions have been made and in third part, concluding remarks have been presented.

9.1. Summary of the Findings:

In this part of the study we propose to sum-up our observations.

Microfinance becomes a possible alternative mechanism for the poor and more importantly for the women. The performances of its service and impact have been recognized around the globe, especially in developing countries in eradicating poverty and in giving economic empowerment to the poor. Thus, various methodologies have been developed to spread the service of microfinance to the needy people. And SHG models have been dominated in this regard, mainly in our country and in some other countries. The SHG models and its concept are so much popular that, some people believe SHGs as the synonyms of microfinance. The performance under these models is again mostly spread in the southern region and in Andhra Pradesh. The Northeast Region remains underserved, but, Assam is in a leading position in this region. Thus, such huge regional disparities may cause problems with service quality, adaptability, suitability and implementations etc. associated with the SHG models in Assam. In this connection and to know the actual picture of microfinance in the State, the performance study is probably the best-way out. Again, among all the districts of Assam, Barpeta district has a prominent position in formation and operation of SHGs and their involvement in microfinance activities. Numerous numbers of SHGs exist in Barpeta District and, most surprisingly, around half of the total SHGs are found defunct.

In this backdrop, we have taken this study to describe the scenario of microfinance in the Barpeta District of Assam and analyze the performance of SHG models of microfinance in this district. In Barpeta District, the service of microfinance is mainly delivering under SHG models (i.e., under SHG Model-II and Model-III) and these models are found suitable and successful in giving access to microfinance services to the poor and women. Thus, the study is based upon the following objectives:

i. To analyze the magnitude and trend of microfinance especially under SHG models in Assam, in general, and to evaluate the same in Barpeta District of Assam, in particular.

ii. To evaluate the performance of SHG models of microfinance on selected parameters, including income generation, in Barpeta district of Assam.

iii. To identify the problems associated with SHGs in Barpeta district of Assam.

The study is a descriptive one and has covered a period of five years from 2007-08 to 20011-12, as this period has been found more vibrant in extending microfinance services under SHG models in Barpeta district. The study is based on both Secondary and Primary data. Secondary data have been collected from reliable sources, viz., NABARD, RBI, RRBs, CMF, DRDA, Development Blocks, Barpeta District web-site, selected branched of ASOMI, Bandhan and RGVN. Again, for the collection of primary data, the entire district has been stratified according to intermediaries, viz., the Development Blocks, branches of ASOMI, branches of Bandhan and branch of RGVN. There are 11 Development Blocks, 3 branches of ASOMI, 3 branches of Bandhan and 1branch of RGVN (i.e., the branches of ASOMI, Bandhan& RGVN ≥ 5 years as on 31.03.2012) have been considered for this study as intermediaries of SHGs in Barpeta District. Thus, accumulate 18 numbers of strata in the district. Then, total SHGs of each stratum have been taken and selection to the total Sample SHGs (i.e., 260 SHGs) has been selected proportionately by lottery method.

The major findings of the study are summed-up in the following points:

9.1. a. On the Characteristics of Primary Data of the Study:

1. In this study, the SHGs were the respondent units and primary data have been collected from the group's head of the SHGs which are greater than or equal to 5 years as on 31.03.2012. During field survey, SHGs up to the age of 15 years were also found, thus, the mean age of the SHGs surveyed in the district is found 9.21 years.

2. Though three SHGs credit linkage models are in operation in our country, named as SHG Model-I, SHG Model-II and SHG Model-III. But in Barpeta District of Assam only

two models are found functional i.e., SHG model-II and model-III. SHG model-I, where banks have to be actively involved with SHGs and due to their over work-loads almost, in all the bank branches in the district, banks are not directly interested to shoulder the responsibilities of SHGs due to lack of operational capacities, infrastructure, staff etc.

3. The SHGs in Barpeta District are found gender specific, i.e. groups are either all female or all male members groups and no such mixed members group were found in the district, more surprisingly, 98.46 percent groups/SHGs are only all-women SHGs and that, under SHG model-III is slightly more than from model-II in Barpeta District.

4. SHG members in the district mostly belong to OBC (Other Backward Class) i.e. up to 40.75 percent of the total members surveyed, followed by members belonging to General Caste up to 36.44 percent, than SC (Schedule Caste) up to 21.12 percent and only 1.68 percent members belong to ST (Schedule Tribe). (Table-7.2 & Figure-7.3)

5. While education level of SHG members is considered, it is found that, the members are mostly having education up to 'Upper Primary' level (i.e., between Class 6th to 8th Standard) which is 40.53 percent of the total members, followed by 29.67 percent members who are found only with 'Lower Primary' (i.e., read up to 5th standard), level of education in the district during the period of study. Small, but 14.38 members are found educated up to Secondary level, 4.66 percent up to Higher Secondary level, 2.79 percent members are found Graduates and 0.39 percent members are found highly educated having Post-Graduate degrees. Again, 7.58 percent members are found with no formal education involved in SHGs in the district. (Table-7.3 & Figure-7.4)

9.1.b. Microfinance under SHG Models in India:

1. Microfinance under SHG-Bank linkage programme has reached to over 10.3 crore rural households and has access to regular savings through 79.6 lakh SHGs linked to banks by March, 2012, and 27 % of these SHGs are savings linked through SGSY programme, the rural poverty alleviation programme of government of India.

2. The Small beginning of linking only 500 SHGs to Banks in 1992 had grown to over 5 lakh SHGs by March, 2002, and further to 79.60 lakh SHGs by March, 2012, in India and the share of southern States are the highest in the total number of SHGs linked, which stands to 46%, while the share of North-East States remain small and stands only to 4.61% by March, 2012, the lowest among all the regions of our country.

3. SHGs Savings with banks during the period of study has recorded a total growth of 58.89 percent with an average growth of 11.78 percent p.a. Together the 79.60 lakh SHGs maintained a balance of over ₹ 6551.41 crore in the Saving Bank accounts with the Banks up to March 2012, with the total growth of 73.07 percent and an average growth of 14.61 percent p.a. during the period, but recorded a negative growth of 6.7 percent in 2011-12.That owing to the decline in the formation of SHG under SGSY and also for increasing awareness of benefits of internal lending of savings among the SHGs. (Table-5.2)

4. During 2011-12 alone, 11.48 lakh SHGs availed of loans amounting to ₹ 16534.77 crore from Banks in India, which records a total growth of 86.85 percent from 2007-08 to 2011-12, and an average growth of 17.37 percent p.a. during the period of study. But, the growth rate of the same was almost nil in 2010-11, as it was only 0.01 percent. Again,

the amount of loan outstanding in 2007-08, was ₹15104.78 crore, against 35.27 lakh SHGs, which increased to ₹ 36340 crore, with 43.53 lakh SHGs by the end of March, 2012. (Table-5.2)

5. The performance in amount of loan disbursed to the MFIs under MFI-Linkage model registered found a total growth of 164.21 percent and an average growth of 32.84 percent p.a. in the disbursement of loans from 2007-08 to 2011-12, but it recorded a negative growth of 21.3 and 38.39 percent respectively in 2010-11 and 2011-12. Again, in case amount of loan outstanding with MFIs, the balance of that in 2007-08 was only ₹ 2748.84 crore with 1109 MFIs in India and that have reached to the amount of ₹ 11450.35 crore with 1960 MFIs by the end of March, 2012. (Table-5.3)

6. In the model-wise performance, the SHG-Bank linkage model, (comprising of model-I & II together) where banks directly lend to SHG, have been found to provide more amount of loans, than, the MFI-Bank linkage (i.e., under model-III) model during the period of study. Again, from the model-wise loan performance ratio, it is found that, the lending positions under-III have been improved from 2007-08 to 2011-12, as the ratio of lending between the models comes from 5.08:1 to 3.17:1 by the end of March, 2012, with the highest performance in 2009-10, where it was 1.72:1. (Table-5.4)

7. Thus, in SHG model-wise loaning performance together under model-I&II, is found to be in a superior position than model-III in India during the period of study. As during 2007-09, the difference of lending was almost 80:20 percent between model-I&II together and model-III, but the performance of the same was improved and increased to the proportion of 63 : 37 and 67 : 33 percent between model-I &II and model-III in 2009-10 and 20010-11, again

the same slashes to 76 : 24 percent in 2011-12. (Table-5.4)

9.1.c. Microfinance under SHG Models in Assam:

1. It is found that, NABARD's regional office of Assam, has played a vital role by providing financial assistance of ₹ 416.06 lakh to 119 NGO-SHPI projects for promotion and credit linkage of SHGs and by 31st Oct. 2011, a total of 16409 SHGs are credit linked in Assam as against ₹ 358.06 lakh grants assistance provided to 119 NGOs for the promotion of 14259 SHGs up to 31st Oct. 2010. To facilitate and to establish socially committed NGO's to access higher quantum of credit from the banking system for meeting the demand of credit, two Microfinance Institutions (MFIs), ASOMI and RGVN have been sanctioned an amount of ₹ 100 lakh each towards capital support by NABARD.

2. The majority population of Assam, i.e., 86 percent of total population, are living in rural areas and most of them are with poor living conditions and such situations barely demand for various schemes which can be used for their development and also for the development of the rural Assam. Aiming the same and from sixth five year plan onwards, various self-employment generation programmes have been implemented in Assam. The list of those programmes includes- Integrated Rural Development Programme (IRDP), Development of Women and Children in Rural Areas (DWCRA), Training of Rural Youth for Self-employment (TRYSEM), Swarnjayanti Gram SwarozgarYojana (SGSY), and Special SGSY for Assam, National Rural Livelihood Mission (NRLM), and Chief Minister's Microfinance Scheme.

3. Apart from these schemes/programmes, some activity based micro-credit services are also in operation in many parts of Assam and benefiting the poor people. The microfinance intermediaries i.e., NGOs/MFIs etc. have also developed

some need based programme according to the suitability of local conditions and for beneficiaries demand like Entrepreneurship Loan, Individual Loan for Shops, Farming Loan etc.

4. ASOMI, a leading MFI of Assam, also has its own microfinance schemes for extending loans for Agricultural Activities, Dairy Framing, Piggery Farming, Weaving and Ari polo, Cane & Bamboo Industry, Ready-made Garments Industry. Operation Rainbow is another bold step of ASOMI; the objective of this mission is to bring White Revolution by milk production, Blue Revolution by fish production, Green Revolution and Yellow Revolution by agricultural production, etc.

5. RGVN is also found offering individual programme for microfinance services and RGVN-CSP (RGVN- Credit and Savings Programme), one of such programmes, is developed to provide loan to the poor. Another programme, known as Entrepreneurship Development Programme (EDP) which is now modified as Entrepreneurship Development Loans (ENL), to provide credit facility to undertake entrepreneurial activity as self-employment.

6. Bandhan's microfinance programme includes 'Micro Loan Product' for the poor women, 'Micro Enterprise Programme' offers bigger loan to women who want to expand their business, 'Ultra Poor Programme (Chartering into Untenured Frontier: Targeting the Hard Core Poor) for the need of women belong to the poorest of the poor community, Microfinance and Health Protection (MAHP) Initiative, etc.

7. It is found that, SHG models of microfinance are dominantly performing in Assam as well, but some other models are also in operation with variation in coverage and spread of service under those models. The operating models in

Assam mainly include- Joint Liability Group (JLG) Model; Microfinance Institution (MFI) Model; Individual Lending Model; Partnership Model; Business Correspondent and Business Facilitators Model.

8. Both government and non-government organizations and departments are found working with SHGs in Assam. The role of DRDA, Development Blocks of every district of Assam is also involved in extending the microfinance services through SHGs. Apart from government departments, some NGOs/MFIs are also found active in providing microfinance service through SHGs. Some of those organisations are of the Assam's origin like ASOMI, RGVN, Prochesta; Sanchays; Namghar and Pujaghar; Aasha; Ujjivan; Youth Volunteer's Union (YVU); Volunteers for Village Development (VVD). MFI Bandhan, originated in West Bengal is also having good service base in Assam and is considered as a leading MFI in the state. These organisations are mainly performing in Assam and some of those are also performing out-side Assam as well.

9. Apart from those leading microfinance intermediaries in Assam, many small organisations are also found active in almost every district of Assam and popularly working in their respective districts and within their limited areas and provides microfinance service. Interestingly, some of those organisations are also accepting deposits from the people and availing credit facilities as well. As in Barpeta district, some of such organisations are: Shibam Socio-Economic Development Society, Jyoti Finance, Trupati Finance, Anchalik Gram UnnayonParisad etc. and in the neighbouring District, Nalbari, Weavers Development Society (WDS); GramyaVikash Mancha (GVM); DREAMS, AASHA (All Assam Socio economic Health association); PITCCOSS (Pioneer Thrift & Credit Co-operative Service Society Ltd.); Jivan-JyotiSilpaSamabaySamiti Ltd.; Pragjyotika;

MaaLaxmi Economic Development Society etc. Again, in Baksa District, VITAL (Socio-Economic Development Society); ORAITHA Economic Development Fund etc. are working with microfinance.

10. Performance under the SHG Models of microfinance in Assam is impressive in comparison to the other states of NER (Northeast Region), but among the other regions of the country, its performance and positions are relatively poor. The number of SHGs having savings with banks in Assam is found 276565, which is only 3.47 percent of the total SHGs of India and amount of savings stands to ₹ 9845.98 crore, which is only 1.50 percent of the total savings with banks in India by the end of March, 2012.

11. But, Assam is found in the leading position in microfinance services in the NER, as of the total SHG having savings in banks, 75.42 percent (i.e., of the total 366718 SHGs) SHGs are found to belong to the state of Assam and of the total amount of saving of NER, i.e., ₹ 15251.75 crore, 64.56 percent savings only belong to the SHGs of Assam by the end of March, 2012.

12. The total SHGs linked to Banks up to March, 2012 is found 276565 lakh, which was only 149719 SHGs by the end of March, 2008; thus recorded total growth in linking of SHGs to banks is 84.72 percent and an average growth of 16.94 percent p.a. during the period of study period. The accumulated amount of Savings of SHGs in different Banks with 276565 lakh SHGs is found ₹ 9845.98 lakh in March, 2012 and that was only ₹ 5800.06 lakh by March, 2008, which accumulated total growth in Savings is 69.76 percent and an average growth of 13.95 percent p.a. during the period of study in Assam. (Table-5.5)

13. The amount of loans disbursed to the SHGs during 2011-12 alone was ₹ 18746.98 lakh to the 28012 SHGs in

Assam, and the same was only ₹ 8869.10 lakh, to the 20318 SHGs in 2007-08. Thus, it recorded a total growth of 111.37 percent in the amount of loan disbursed and 37.87 percent in SHGs, in the five years period of study with an average growth of 22.27 percent p.a. in amount of loans disbursed and at 7.57 percent p.a. in the SHGs with savings. The growth of the same was found highest in 2008-09, as to 76.98 percent in the amount of loans disbursed during the period of study. (Table-5.5)

14. As women members occupied the lion share in SHG models of microfinance and amount of loan disbursed to all-women SHGs are also found considerable during the period of study, and in an average 82.93 percent of the total amount of loan is disbursed to only all-women SHGs in Assam during the period of study.

15. As regard the amount of loans outstanding with SHGs, found that, in 2007-08, the amount of loans outstanding was only ₹ 24224.37 lakh, as against 75405 SHGs and that with an average growth of 26.76 percent p.a. in the amount of loans outstanding and 11.24 percent p.a. in SHGs with loan outstanding, the amount of loan outstanding reached to Rs.63021.64 lakh, as against 117809 SHGs by March, 2012. No negative growth was found in any year during the period of study, thus, recognising the expansion of microfinance services year after year under the SHG-models.

16. Again, total amount of loan provided (i.e., loan disbursed and loans outstanding) to 145821 SHGs up to March, 2012, in Assam reached to ₹ 81768.62 lakh, which recorded a total growth of 147.08 percent and an average growth of 29.42 percent p.a. during the period of study. The amount of total loans availed to all-women SHG in 2007-08, was ₹ 24168.16 lakh to the 76090 women SHGs and by an average annual growth of 37.08 percent in the amount

of loan outstanding and 11.85 percent in the SHGs, the same reached to the balance of ₹ 68971.73 lakh, against 121177 SHG by March end, 2012.

17. Performance of SHG models of microfinance in Assam establishes that, maximum amount of loans have been given to the beneficiaries together under model-I&II, which was in average of 74.04 percent p.a. of the grand total amount loan given during the period of study and the same under model-III was only 25.96 percent p.a. during the same period of study. Again, the total growth made in five years in the total amount loans was found 124.93 percent, together under model-I&II, and that under model-III records a total growth of 259.52 percent in the same five years period under study.

18. In terms of the total amount of loan provided, the SHG-bank linkage models was found with more expansion and flow of micro-credit, than, MFI-bank linkage model. But, in terms of growth rate, the MFI-bank linkage model (i.e., model-III) recorded better growth; thus, microfinance services under model-III, is considerably increasing and spreading in Assam. Again, the total amount of loans provided together under model-I&II in 2007-08 was 83.54 percent, which has come down to 76.05 percent by the end of March, 2012, and the same under model-III was only 16.46 percent in 2007-08 and has increased to 23.95 percent by the end of March, 2012.

9.1.d. Microfinance under SHG Models in Barpeta District of Assam:

1. The microfinance services in Barpeta District flourished after the introduction of SGSY programme in 2000, but as reported by the district official and intermediaries, from 2004-05, the programme started progressing by forming

voluminous SHGs and prior to that the progress was not impressive in the district.

2. It is found that, total SHGs linked to Banks and MFIs in the district up to the end of March, 2012, have grown to 15, 477, which was 11346 SHGs in 2007-08. Thus, recorded a total growth of 36.41 percent and an average growth of 7.28 percent p.a. during the period of study in linking SHG, together under SHG model-II and model-III. Again, the least growth rate has been found during the period was 5.55 percent in the year 2011-12. (Table-6.1)

3. The position of all-women SHGs in Barpeta District is found very impressive and that even reached beyond the national average of 80 percent. All-women SHGs in the District have increased to 15,261 SHGs up to March, 2012, which is 98.60 percent of the total SHGs in the district. Thus, total growth of all-women SHGs in the district is found to be 39.34 percent during the five years period and an average growth of 7.87 percent p.a. during the same period of study.

4. Surprisingly, only 8,392 SHGs are found as Active SHGs in the district and i.e., 54.22 percent of the total SHGs. Thus, close to half of the total SHGs in the district are found defunct and those SHGs are no longer in existence or not interested in SHG activities. It is also reported that, most of those SHGs were formed with the intention to take the benefits of subsidy and while they found no more subsidies they stopped working and their SHGs become inactive.

5. It is found that, SHGs growth rates have come down from 2009-10 onwards and it came down to even below 10 percent in the district and the growth rate was highest in 2008-09. The position of active SHGs in terms of growth rates during the period of study found with total growth

of 36.10 percent and an average growth of 7.22 percent p.a. But, the growth rate of the same was very poor as to 3.76 percent in 2011-12. Thus, growth rate of active SHGs came down even below the average rate in 2011-12. This indicates the slow progress of formation of groups and leaves question mark to the sustainability of SHGs in the district, owing to the poor management, limited credit flow, subsidy provision under SGSY, rural people participation in NREGA, etc. in the district has weakened the performance.

6. The total amount of loan availed by the SHGs in Barpeta District occupies only 9.36 percent of the total amount of loans availed in Assam (comprising of loans disbursed and loans outstanding) during 2011-12. The share of district in the state was almost same with little variations during the period of study, as it was 13.62 percent in 2007-08, the highest score during the period of study, 9.52 percent in 2008-09, 9.00 percent in 2009-10 and 9.29 percent in 2010-11, and these with an average share of 10.16 percent p.a. during the period under study.

7. As regards the amount of loans disbursed to the SHGs in the district, it is found ₹ 1615.69 lakh in 2007-08, which with an average incremental growth of 30.39 percent p.a., reached to ₹ 2840.31 lakh by the end of March, 2012, with a negative growth of 1.44 percent in 2011-12.

8. The amount of outstanding loan with the SHGs in the district was ₹ 2890.89 lakh in 2007-08 and amount of loans outstanding rose to ₹ 4811.83 lakh, which seems near to double, by the end of March, 2012, thus, recognising considerable growth in financing during the period of study.

9. The total amount of loans provided to all-women SHGs in an average is found to be 81.74 percent p.a. in the district, with little variation during the period of study.

Thus, women SHGs are the main source for expansion of microfinance services in the district. As all-women SHGs have occupied the main share in the district and up to the end of March, 2012, the total amount of loans disbursed to those SHGs were ₹ 6,587.73 lakh and that recorded a total growth of 91.09 percent, with an average growth of 18.22 percent p.a. during the period of study.

10. In model-wise SHG formation performance in the district, it is found that more numbers of SHG are being formed under model-II, than model-III and that in terms of ratio was 10.10: 1 in 2007-08, and that has improved a little towards model-III, in 2011-12, the ratio of SHG formation stands at 8.76:1 under model-II to III. (Table-6.2 & Figure-6.5)

11. It is also found from the year-wise comparison of the active SHGs under each of the SHG models that, SHGs formed and managed under model-III are more active and sustainable, and that in an average stood to 91.26 percent p.a. and that in case of model-II is only 51.64 percent p.a. in average, during the same period of study in the district. Thus, there is an average gap of 39.62 percent p.a. or SHG model-II is lagging behind by that percentage from model-III in terms of active SHGs, during the period of study.

12. It is also found that, model-III has performed well in terms of providing more amount of loans to the beneficiaries in comparison to model-II, if we consider the model-wise loaning performance ratio, more amount of loan has been provided under model-III in all through the period of study, and average ratio of lending under these two models comes to 0.73:1 p.a. during the period of study. (Table-6.3)

13. It is found that, amount of loan disbursed under model-II in 2007-08 was only ₹ 386.85 lakh, which at an average annual growth of 21.97 percent reached to ₹ 811.81 lakh

during 2011-12, and in case of loan outstanding with the SHGs in the district, it was amounted to ₹ 1573.51 lakh in 2007-08, which rose to ₹ 2564.84 lakh by the end of March 2012, thus registered a total growth of 63 percent in the period of study. But, position of loans disbursed under model-III was ₹ 1228.84 lakh in 2007-08, which, with an average annual growth of 13.01 percent, reached to ₹ 2028.50 lakh, by the end of March, 2012 in the district, including a negative growth of 1.76 percent in 2011-12. Again, as regard amount of loan outstanding with SHGs in the district, it was only ₹ 1317.73 lakh in 2007-08, which rose to ₹ 2246.99 lakh by end of March, 2012, thus registered a total growth of 70.52 percent during the period of study. (Table-6.3)

14. The total amount of loans provided to all-women SHG under model-II was 1449.87 lakh in 2007-08, which by registering an average growth of 20.33 percent p.a. reached to ₹ 2716.96 lakh by the end of March, 2012. The same under model-III was ₹ 1997.93 lakh in 2007-08, which rose with an average growth of 18.18 percent p.a. and reached to ₹ 2983.33 lakh by the end of March, 2012. Further, the women SHGs are given in an average 75.79 percent of the total loans under model-II during the entire period of study and the same under model-III was found in an average of 85.89 percent during same period of study in the district. Thus, under model-III, 10.10 percent more amount of loans had been extended to the all-women SHGs in the district during the period of study. (Table-6.3)

15. The total amount of loans provided under model-II in the district were ₹ 1960.36 lakh in 2007-08, which increased with an average growth of 15.24 percent p.a. and reached to ₹ 2523.62 lakh in 2011-12, and the same under model-III, was ₹ 2546.57 lakh in 2007-08, which rose to ₹ 2599.89 lakh by recording an average growth of 13.06 percent p.a.

during the entire period of study. Surprisingly, despite having such huge volume of SHG under model-II (i.e., 90.99% of the total SHG of the district) in the district only 43.50 percent of the grand total amount of loans under both the models were provided to SHGs in 2007-08 and that under model-III was 56.50 percent to only 9.01 percent of the total SHGs of the district in the said period. This huge disproportion signify that, the SHGs under model-III availed of more amount of loans and SHGs under model-II were under- served or extended less amount of loans. Again, if we consider the same for the year 2011-12, an amount of ₹ 2523.62 lakh, which is 42.27 percent of the grand total amount of loans under both the models were extended to the SHGs under model-II in the district, and under model-III the same was ₹ 2599.89 lakh, which is 57.73 percent of the grand total amount of loans provided in the same period. (Table-6.3)

16. The growth trends of microfinance (Comprising of total loans, loans disbursed, loans outstanding and loans to women SHGs) under each models behave and move in reverse way, as under model-II the growth trends fluctuate considerably during the period of study in the district, but, the growth trends under model-III were slowly progressed from 2007-08 to 2009-10 and thereafter gradually fall up to the end of the period under study. But, progress under model-III was almost steady in comparison to model-II in the same period of study. (Figure-6.9)

17. Again, the growth in amount of loans disbursed under model-II is found to be 19.20 percent in 2007-08, which maintained an average incremental growth of 21.18 percent during the period of study along with a negative growth of 0.64 percent in 2011-12. The same under model-III was 18.33 percent in 2007-08 and an average incremental growth of 14.67 percent is recorded during the period of

five years, along with 1.76 percent negative growth in 2011-12. (Table-6.3)

18. In case of growth rate of loans outstanding with SHGs in the district, it is found only 12.95 percent in 2007-08, which reached to 22.70 percent in 2011-12, and registered two negative growths of 21.41 and 2.50 percent respectively in 2008-09 and 2010-11. But, under model-III, the same was only 4.32 percent in 2007-08, which reached to 17.15 percent in 2011-12; by registering an average growth of 12.41 percent p.a. all through the period of study and no negative growth has been registered during the period. (Table-6.3)

19. The loans all-women SHGs under model-II registered a growth of 15.55 percent in 2007-08, with an average growth of 20.33 percent p.a. during the period of study and stands at 15.07 percent in 2011-12, overcoming a negative growth of 20.27 percent in 2008-09, but the same under model-III was 18.40 percent in 2007-08, registering an average growth of 18.18 percent p.a. during the period of study and reached to 11.50 percent in 2011-12. (Table-6.3)

20. Two diagrammatic presentation have been made in figure-3.24 and 3.25 to find the relative position of SHGs and total loans to SHGs in India, Assam and in Barpeta District and it is found that, there is a sharp downfall in the growth of SHGs and loans extended to them from 2009-10 onwards in India, Assam and as well in Barpeta District of Assam. The position was favourable from 2007-08 to the 2009-10, as highest growth rates were recorded during that period as shown in the figures. Such drastic down-fall both in the growth of SHGs and in microfinance (i.e., in extending total amount of loans), during the period has weakened the service of microfinance domain and base in the country.

21. It is also found that, the incidents which took place in Andhra Pradesh, where 30 farmers had committed suicide within a span of 45 days in 2010, after a few MFIs used coercive recovery tactics, was a strong reason for such adverse scenario as after such incidents many financing banks and institutions stopped financing to MFIs. Again, subsidy provision under SGSY programme also weakened the base of SHGs which were formed only to take the benefits of the subsidy. Again, the change of programme from SGSY now to newly introduced NRLM also concentrate a lot in changes of the functional structures, power and management and also weakens the rapid growth and speed of microfinance sector in the country during the period under study.

22. From SHG model-wise analysis, it is found that, SHG-bank linkage models (together Model-I & II) remains in dominant position in terms of volume of SHGs and amount of loans availed to the SHGs, than MFI-bank linkage model (i.e., Model-III) during the period of study in our country as well as in Assam.

23. But, some variations have been found in this regard in Barpeta District, as of the total SHGs in the district 89.75 percent are formed under model-II and only10.25 percent SHGs are formed under model-III, in 2011-12. Again, total amount of loans given to the SHGs under model-II in the same period was ₹ 3376.65 lakh, which was 44.13 percent of the grand total amount of loans under both the models and the rest 55.87 percent, were provided to only 10.25 percent SHGs in the district, under model-III.

9.1.e. Performance of SHG Models on Developmental Parameters in Barpeta District:

1. On SHG and Members Outreached Performance:

i. In Barpeta District of Assam, SHG model-II is found more efficient as regard formation of SHGs in comparison with model-III. As in 2007-08, the total number of SHG, formed under model-II was 10324, which rose to 13891 SHG, by the end of March 2012, registering a total growth of 34.55 percent during the period of study. But, that under model-III were only 1022 SHGs in 2007-08, which rose to 1586 by end of March, 2012, thus, registered a total growth 55.19 percent during the same period of study. So, in terms of growth rate of formation of SHG, model-III is performing better than model-II in the district during the period by 20.64 percent. (Table-7.1)

ii. The total number of SHG members or beneficiaries found in the district by the end of March, 2012, is 197485, of which 194142 members are women i.e., 98.31 percent of the total SHG members. This figure constitutes 11.66 percent of the total population (i.e., of 1693190) in the district. Further women SHG members or beneficiaries constitute 23.52 percent of the total women population (i.e., 825299) of the district, involved in SHGs in the district. (Table-7.1)

iii. It is also found that, of the total SHG members upto the end of March, 2012, 85.05 percent members are covered under model-II and that under model-III accounts for only 14.95 percent of the total SHG members in the district. Again, 98.65 percent members under model-II are only women members and that under model-III is found as 96.35 percent in the district. (Table-7.1)

2. On Loaning Performance:

i. It is found that; amount of credit/loan disbursed to the SHGs in India in average was ₹ 144046 during the year 2012, which was in the highest priority state of Uttarakhand of ₹148155, in the same period. But, the average credit/loan disbursed to the SHGs in Assam during the same period was only ₹ 66925 per SHG, which is much lower than the national average and stands only to 46.46 percent of the national average amount of loan to each SHG.

ii. Among the NE states, the average amount of loan disbursed in 2011-12, to per SHG in Arunachal Pradesh was ₹ 121508; in Manipur was ₹ 65560; in Meghalaya was ₹ 70799; in Mizoram was ₹ 120035; in Nagaland was ₹ 72075; in Sikkim was ₹ 106995 and in Tripura was ₹ 121614. So, average amount of loans disbursed to the SHGs in Assam is also comparatively less than from other states of the regions. But, it is to be mentioned here that, of the total SHGs in the NE region, (i.e. 51003 provided loans/ credits) 54.92 percent of which only belong to the State of Assam and the rest is spread-over the other states of the region. Thus, such huge number of SHGs reduces the credit allocation for SHGs in Assam.

iii. The average amount of credit disbursed to the SHGs in Barpeta District of Assam in 2011-12 is found ₹ 91173, a bit higher than Assam average. Again, the amount of loan provided to each SHG in Barpeta District from 2007-08 to 2011-12 in average come to ₹ 45615 p.a. and average amount of credit to the SHGs in Assam in average was ₹ 59623 during the same period. (Table-7.4)

iv. More importantly, it is found that, SHGs under model-II in the district were obtained only ₹ 35040 per SHG, as average amount of loan/credit during the period from 2007-08 to 2011-12. But, the SHGs under model-III have obtained more amount of average loan/credit, as the SHGs under Bandhan obtained ₹ 144278 per SHG, SHGs under ASOMI ₹ 73325 per SHG and under RGVN ₹ 46200 per SHG, during the period of study. (Table-7.4 & Figure-7.5)

v. Thus, it is found that, SHGs under model-II have been provided with very small amount of loan, which is the smallest average amount of loan in comparison to the other SHGs under model-III in the district as well as below the State and District average amount of loan/credit. Hence, model-III is performing better in extending loans to the SHGs in the district during the period of study than model-II.

vi. As performance of SHGs depends a lot on the amount and frequency of loan provided to them, it is found that, nearly half the total SHGs under model-II have obtained loan once during the entire period of five years under study, that is 47.25 percent of total SHG and very close to that of 41.74 percent SHGs have obtained loan twice in the same period and only 11.01 percent SHGs are found to have obtained loan for three times during the same period. Thus, loaning service to the SHGs under model-II is not impressive and most of the SHGs are suffering from shortage of loan/credit. (Table-7.5)

vii. The loaning performance under model-III is comparatively better as majority of SHGs under this model have obtained five loans i.e. 38.10 percent of total SHGs under model-III, means yearly one loan in average, where none of the SHGs under model-II has obtained more than three loans in the same period. Further, 4.76 percent SHGs have reported that, they have obtained more than five loans during the same period. Only 14.29 percent of the sample SHGs under model-III have obtained single loan and the rest fall in two to four times loan obtained SHGs category in the district. (Table-7.5)

viii. It is also apparent that, loans are more frequently disbursed to the SHGs under model-III than under model-II in the district during the period of study and it can be said that, the SHG under model-III had obtained loans more frequently than SHGs under model-II in the district, which is very important for the sustainability of SHGs.

ix. It is found that, the amount of loan provided to the SHGs in Barpeta District during the period of study from 2007-08 to 2011-12, in an average was 45,615 p.a. and their demand for loans in the same period in average was ₹ 72,793 p.a. Thus, a healthy gap of ₹ 27,178 p.a. in average, was found between demand for and amount of loan obtained in average by the SHGs in the District. (Table-7.6)

x. The gap of amount of loans among the blocks SHGs under model-II is found to be ₹ 23,506 p.a. during the period of study and the same among the SHGs under model-III is found to be 38,126 p.a. Thus, despite of providing comparatively higher average amount of loans annually to the SHGs under model-III, the gap of loan/credit demand remains high among the SHGs under model-III during the period of study. (Table-7.6)

xi. More interestingly, it is found that, the amount of loans obtained by the SHGs in the district, highly depends on their loan demands or we can say that, more amount of loan demanded by the SHGs helps in obtaining more amount of loans as the value of correlation co-efficient between the variables comes to 'r' = 0.8934, so variables are highly positively correlated. Again, the same for the SHGs under model-II comes to 0.7600 and under model-III comes to 0.8602. Thus, the relation slightly varies among the models.

xii. It is also found that, SHGs under model-II re-pay their loan mostly on monthly installment and only 2.75 percent

SHGs have been found who re-pay loans other-wise and they are actually the defaulter SHGs in regular re-payment of loans. But, the re-payment system under model-III is different and most of the SHGs are found to re-pay their loans on weekly installment leaving a small percentage of SHGs who pays either fortnightly or monthly. No such SHGs have been found in the district that re-pays loan on quarterly basis under both the models in the district. (Table-7.7)

xiii. The loan recovery rate of SHGs are found very impressive in the district and it was found 90.61 percent in 2007-08 and that gradually improved to 92.25 percent in 2008-09; 93.16 percent in 2009-10; 97.11 percent in 2010-11 and 96.56 percent in 2011-12 under both the models during the period of study.

xiv. Again, the loan recovery rate of SHGs under ASOMI, Bandhan and RGVN, i.e., under model-III is found higher than SHGs under model-II in the district during the period of study and that, in average stands to 98.67 percent during the period of study as reported by the intermediaries. The same under model-II as reported by the banks and block officials is found around 76 percent in the district. Thus, in loan recovery performance, model-III is found superior to model-II and in some cases the recovery rates came to 100 percent as reported by the intermediary's deals in model-III.

3. On Income Generation Activities Performance:

i. It is found that, SHGs in the district are mostly engaged only in weaving activity, i.e., up to 41.15 percent of the total SHGs surveyed. Next, SHGs are mostly found to be engaged in 'Multiple Activities' which stand up to 26.15 percent and then only in farming, i.e., up to 12.69 percent SHGs and these are the three main income generation activities found in the district. Apart from these, some other activities are also followed by some of the SHGs in the district, but, their percentage is very poor as given in table-7.8 & figure-7.6.

ii. Again, SHGs under model-II are found mostly engaged in weaving activity, as weaving is their traditional activity for most of the women members and they are also skilled in that, followed by farming and multiple activities. But, SHGs under model-III, i.e., SHGs of ASOMI, Bandhan and RGVN are found more active in selection of activities and they preferred convenient/seasonal/skill-based activities, as such 73.68, 83.33 and 60 percent SHGs respectively, are found following multiple activities and also reported as more benefited, rather relying on single activity and where only 16.51 percent SHGs under model-II are in practice of multiple activities.

iii. The SHGs engaged only in weaving activity i.e. 107 SHGs under both the models are mostly found in making various cloth items like ‘Chador Mekhala, Gamosa, Woolen Chador, Woolen Cloth, Woolen Scarf and those SHGs occupied for about 35.51 percent of total SHGs engaged in weaving activity, further grouping is also given in table-7.9 & figure-7.7.

iv. Again, it is found that, 68 numbers of sample SHGs are engaged in ‘multiple activities’ and mostly involved in ‘weaving, poultry framing & tailoring’ activities which stand at the highest percentage of 36.76 among the other sub-grouping of multiple activities followed by SHGs in the district. (Table-7.10 & Figure-7.8)

v. Farming activity is found as third largest income generating activities among the SHGs in the district, and all-together 33 SHGs have been found in the district to be engaged only in farming activities and on their further sub-grouping, it is found that, most of those SHGs under model-II i.e., up to 32.26 percent SHGs are engaged in Poultry, Piggery, Goatary, Fishery, Duckery farming. But, the SHGs under model-III are engaged in the farming of Dairy, Fishery and Poultry and none of the SHGs under this model is found to be engaged in any other type of framing activity in the district. (Table-7.11 & Figure-7.9)

vi. It is found that, 48.46 percent SHGs under both the models in the district have poor dependency on the SHG activities in terms of earning derived from the same, again 23.08 percent and 18.46 percent SHGs respectively of total SHGs expressed their dependency as 'Low' and 'Partial' and only 10 percent SHGs have been found to be highly dependent on the income generation activities of SHGs. (Table-7.12 & Figure-7.10)

4. On Income Generation Performance:

i. It is found that, the SHGs generating income in the district can be divided into three sources, i.e., Income from Sale of SHG/Group Products, Interest Income of SHGs fund investments and Others/ Speculative Income of SHGs.

ii. As a source of income generation, the SHGs produce various types of products as per their skills and sell them either directly or indirectly for profit. But, during the survey, mixed responses have been found in this regard, as some groups are producing some products/goods in group, some group members are producing individually and some other members producing individually but as a part of group product. And in some cases some SHGs are found without any products and production for sale and out of 260 samples SHG in the District, 27 such SHGs have been found without any group products and production.

iii. The Average monthly sales of the SHGs in Barpeta District during the period of study has been to the extent of ₹ 3,274 per SHG, and they earn at the rate of 30 to 55 percent in average from the sale of their products, as a result, the average monthly income from sales comes to ₹ 1,536 per SHG under both the models. (Table-7.13)

iv. It is also found that, the average monthly sale and income from sales of SHGs under model-II is relatively less than the average amount of sales and income under both the models during the period of study. But, the same under model-III is relatively better than of model-II, except in case of intermediaries ASOMI in the district, which is comparatively poor performer among the intermediaries under both the models in the district. (Table-7.13)

v. The 'interest income' is found as very regular source of income generation for the SHGs in the district, and all the sample SHGs are found active in generating income from lending of their group funds among the members as well as to the out-siders. They charges 2 to 3 percent interest per month, when lends among the members or within groups and charges 3 to 5 percent when lends to out-siders.

vi. It is found that, SHGs in the district are earning ₹ 1,504 as average monthly interest income during the period of study. Again, the same for the SHGs under model-II is found ₹ 1433 in average per group. And that under model-III, for the SHGs under ASOMI found ₹ 1458, of Bandhan ₹ 2350 and of RGVN ₹ 1360 as monthly average interest income. Further, the SHGs under model-III as a whole earns ₹ 1,869 per month per group in average, thus interest income of SHGs under model-III is more than SHGs under model-II in the district during the period of study.

vii. Thus, 'interest income' becomes most secure and regular source of income for the SHGs in the district, and some

SHGs have also been found which deals only with this activity and generating incomes, thus, most of SHG/Group now have become ‘Micro-Lenders’ from ‘Micro-Borrowers’ within a span of few years.

viii. From the correlation study among the variables of ‘amount of loans obtained during the period by SHGs’ and ‘monthly average interest income’ it is found that, the value of correlation comes to, r_{xy}= 0.1233, thus, the variables are slightly positively correlated in the District. Again, model-wise analysis of those variables reveals different results as value of ‘rxy’ under model-II stands at 0.0310 and the same under model-III stands at 0.2257, thus, the variables are more positively correlated under model-III in the district during the period of study than model-II.

ix. It is also found that, some SHGs in the District are also generating income from speculative or non-recurring types of activities, like income from Tea-Stall in Mela, making Traditional Pithas (cake), Hotel in during Puja season or in RasMela, etc. and all together 42 such SHGs were found in the district, which is 16 percent of the total sample SHGs, and generating income which in average comes to ₹ 213 per month among the SHGs engaged in speculative income generation.

x. Further, total average monthly income per SHG in Barpeta district came to ₹ 2,879 and accordingly the average yearly income of SHGs in the district came to ₹ 34547 during the period of study under both the models. Again, average yearly total income of SHGs under model-II has been found ₹ 33369 and that for the SHGs under ASOMI has been found ₹ 35005, of the SHGs under Bandhan found with ₹ 47933 and SHGs under RGVN has been found with income of ₹ 36000. As such, the average yearly total income of the SHGs under model-III has been found ₹ 39646 in the district during the period of study. (Table-7.14)

xi. The income generating performance of SHGs in the district in terms of their models have also been obtained, which is found as 0.84:1 (i.e. average income of SHG under model-II/under model-III), thus SHGs under model-III have earned more income than the SHGs under model-II in the district during the period of study.

xii. From the groupings of SHG members in terms of income source, it is found that, 75.93 percent members are engaged and earning from group activities and as well as from some personal activities under both the models, the same is found more impressive under model-II, which is found 79.47 percent and that under model-III is found 66.01 percent. On the reasons of such discrimination it is found that, SHGs under model-II in the district are not given proper care in income generating activities as well in other facilities, so the members have to think for external exposure. But, under model-III it is found comparatively better, owing to frequent service and training and repeated counseling with the SHGs by their intermediaries and results in more confidence and reliability on the SHG activities. (Table-7.15)

5. On Savings Performance of Members:

i. The SHG members under both the models in district are found mostly with regular savings with banks. As such, the average savings of members in the district has been found ₹ 49 per month, which falls in the range of national average of ₹ 10 to ₹ 50 per month during the period of study and no such change in monthly contribution of members to group savings have been found during the period of study among the SHGs in the District. (Table-7.16)

ii. It is found that, of the total sample SHG (i.e. 260 SHG) 248 SHG has been found in the practice of regular savings in the district and of the same 34.27 percent SHGs are saving at the rate of ₹ 50 per month. Again, 82.26 percent of the sample SHGs with savings are saving in the range of ₹ 10 to ₹ 50 per month and only 17.74 percent SHGs are saving in the range of ₹ 60 to ₹ 120 per month in the district during the period of study. Therefore, the monthly average amount of savings comes to ₹ 563 per SHG and yearly ₹ 6759 per SHG in average, during the period of study in the district. (Table-7.16)

iii. Further, the savings performance of SHGs under model-II is comparatively lower than the district average amount of savings of SHGs under both the models. But, the savings position of SHGs under model-III is comparatively better than the SHGs under model-II. And among the SHGs under model-III the SHGs under Bandhan records the highest amount of annual average savings, followed by ASOMI and RGVN in the district during the period of study.

iv. It is found that, SHGs keep their members savings with multiple savings provisions in the district, but mainly keeps in banks as well as invest as internal and external loans. Most of the SHGs i.e., 76.61 percent keep their savings with banks and the rest keep on investing as loans for generating interest income. Next 16.13 percent SHGs keep their members savings with banks in their group account, 3.23 percent SHGs still keep their savings with group head and 2.02 percent SHGs have been found who keep their savings in the personal account of members.

v. Further, 16.35 percent SHGs under model-II keep their savings only with banks and the same under model-III is found to 15 percent. Again, 78.37 percent SHGs under model-II are partly savings with banks and as well as investing as loans as the most lucrative option and the same under model-III stands to 67.5 percent. Thus, under both the models, most of the SHGs have accepted the option for savings as 'In Banks and also Investing as loan' to retain their savings, in the district (Table-7.18).

vi. It is found that, 27.7 percent SHG members also have savings other than compulsory group savings in the district and the rest have only compulsory group savings under both the models. Out-of those members, 50.99 percent keep their savings in post office savings, followed by in banks 13.92 percent, 13.68 percent keep in hand, 13.22 with chit-fund companies and 8.19 percent keep both in bank as well as in post-office. (Table-7.19)

vii. Up to 24.75 percent members under model-II have reported of saving other-wise and the same under model-III have reported up to 35.96 percent. Members who have reported about savings 'other-wise' under model-II mostly retain their savings in Post office, which is found to be 55.24 percent, followed by 13.85 percent in Banks, 11.37 percent keep in their hands, 11.01 percent in chit-fund Co.'s and 8.53 percent in banks as well as in post office. Again, that under model-III as per their report, 42.81 percent members retain their savings in post- office, 18.15 percent keep in their own, 17.47 percent in various chit-funds Co.'s, 14.04 percent in banks and 7.53 percent members retain in banks as well as in post-offices in the district. (Table-7.19)

viii. On accessing the willingness of members towards savings, it is found that, 55.06 and 36.24 percent members under model-II are 'willing' and 'highly willing' respectively towards savings in the district. Further, the same under model-III records as 61.90 percent and 30.95 percent respectively are 'willing' and 'highly willing' towards savings in the district during the period of study. Thus, it seemed that, members under model-III are more willing towards savings, than model-II in the district, which is the result of better performance in income generation. (Table-7.20)

ix. The reasons behind the unwillingness of group of members, is found that, need for expenses stand as the main reason for their unwillingness towards savings followed by poor income level and alternative investment heads in the district. (Table-7.21 & Figure-7.14)

6. On Financial Inclusion Performance:

i. It is found that, of the total sample SHG members (i.e., 3087), 1166 members have opened accounts either only in Banks, or in Post-Offices or in both, and of them 58.75 percent members are found, having account only in Banks, 33.36 percent members having account only in Post-Offices and the remaining 7.89 percent members are found having account in Banks as well as in Post-Offices in the district. (Table-7.22)

ii. Thus, the performance accumulates 37.77 percent of SHG (i.e., 1166 members are included out of total 3087 members) members are financially included in the district due to microfinance intervention or for working with SHGs as reported by the members. Again, inclusion percentage seems highest among the SHG members under ASOMI and Bandhan, which is 57.77 and 46.55 percent respectively and the same is comparatively less in case of SHG members under the supervision of Blocks (model-II) of Barpeta District. (Table-7.22)

iii. From model-wise inclusion performance of members, it is found that, 33.85 percent members under model-II are included during the period of study and the same under model-III is found 48.77 percent, thus recorded 14.92 percent more financial inclusion performance under model-III in the district during the period of study. (Table-7.22)

iv. Further, 7.01 percent members under model-II are included by way of Accounts in both Banks as well as in Post-offices and that under model-III recorded 9.60 percent, which is also higher than of model-II, thus, recognizing more financial inclusion performance under model-III in the district.

v. Again, the members having accounts only in Banks under model-II accounts for 61.72 percent with Saving A/Cs, 26.56 percent with Recurring A/Cs, 10.35 percent with No-Frill A/Cs and with 1.37 daily collection system of banks and those under model-III accounts for 69.94 percent with Savings A/Cs, 9.25 percent with Recurring A/Cs and 20.81 percent with No-frill accounts holders in the district. So, there exist differences in the selection of Accounts by the members under each of the SHG models. (Table-7.22 & Figure-7.15)

vi. As regards obtaining insurance services it is found that, only 114 of the total members, i.e., only 3.7 percent members have obtained an insurance (i.e. life insurance) policy from the income of SHG. Further, 89.60 percent members are found who are not interested to take insurance services in the district and only 2.2 percent members are planning to take insurance service and 4.5 percent members' straight-way said they can't afford. (Table-7.23 & Figure-7.16)

vii. On the availability, accessibility and affordability of microfinance in the district, it is found that, only 21.15 percent SHGs in the district under both the models expressed micro-credit as available and the rest 78.85 percent said it is not available. In case of accessibility of micro-credit in the district only 22.31 percent SHGs under both the models said it is accessible and the rest feel it is not accessible for them in the district. Further and more importantly about affordability of micro-credit, 85.38 percent SHGs replied as it is affordable for them and they can cope with the present cost of credit charged by various intermediaries in the district. (Table-7.24 & Figure-7.17)

viii. Further, 73.81 percent SHGs under model-III replied micro-credit is easily available in the district, but the same under model-II is found only 11.01 percent, thus, availability of micro-credit discriminates a lot in terms of model. Again, in case of accessibility of micro-credit, which is an important factor as SHG members are mostly women in the district, only 3.33 SHGs under model-II have replied as it is easily accessible and the same under model-III recorded to 73.81 percent in the district and some SHG also reported about the spot delivery of credit by their intermediaries under model-III. Further, in case affordability of micro-credit, the response under both the models in the district is almost same, so, cost is not a big factor for the SHGs under both the model in the district.

7. On Women Empowerment Performance:

i. It is found that, 89.96 percent of the total members under both the models are regularly attending group meetings, 77.26 percent members are freely keeping their opinions in the group meetings, 23.23 are willing to go for official works or visits intermediaries office, 21.9 percent members are willing to go to market for group activities or for buying and selling. Little variations have been found in the performance under models, as 90.60 percent members under model-II are attending meetings regularly, whereas the same under model-III stands to 92.73 percent. Again, as regards 'expression of opinion' by members, 75.20 percent members replied as they freely keep their opinions in meetings under model-II and the same found up to 86.82 percent under model-III in the district. (Table-7.25)

ii. As regard the need of obtaining permission by women members in the district it is found that, 61.49 percent members are reported as 'it is not a must but needed' that means seeking/taking permission is not a pre-condition but ethical in the family, so they only need to inform and if they fails to do so, that will not create any trouble for them. Followed by that, 15.76 percent members said they have to seek permission, or it is 'must be needed', and lack of that will create trouble for them, 13.1 percent members have also reported as they need not to take permission and 9.65 percent members said it is 'seldom needed'. (Table-7.26)

iii. It is also found that, 83.62 percent members under both the models said 'No/Not needed' or they need not to hand over their earning to husband or to male head of the family and they can keep it their own and the rest said they need to hand over their income either fully or some part to the husband or male head of the family. Again, 85.59 percent members under model-II said they need not to hand over their income to male counterpart, but the same under model-III is found 78.20 percent. [Table- 7.27 (A)]

iv. On spending of earning by members, it is found that, 67.47 percent of the total respondents under both the models said 'No/Not Needed' and they spend their earning of their own for purchasing their needs and of family, but while purchasing assets, jewelry, etc. male members are often consulted for better advise but that is not under any pressure and compulsion as reported by the respondent in the district. Again, under model-II, 71.17 percent members said as 'not needed', but the same under model-III, that stood at 57.27 percent in the district. [Table-7.28 (A)]

v. On the issue of involvement in family decision making, it is found that, 93.20 percent members under both the models said 'Yes' and they are now being involved and consulted in family decision making, where earlier they were mostly ignored. And that under model-II is found to be 94.45 percent members considered their importance in the family decision making and under model-III; it found 89.78 percent in the district. [Table-7.29 (A)]

vi. On the issue of empowerment towards politics, it is found that, only 39.43 percent members under both the models are interested towards politics and major part i.e., 60.57 percent members have shown no interest towards politics in the district. Further, interest of members found a bit different according to the models, as under model-II, 41.63 percent members were found interested towards politics and that under model-III stands, to 33.37 percent in the district. [Table-7.30 (A)]

vii. On the issue of empowerment violence against women, it is found that, 57.03 percent members under both the models said that, they are 'Most of the time concern' and oppose such violence if it happens to any members or even if it happens to their neighbors. Some incidents of beating by husbands after drinking are now under control as reported by some groups and for having group support with those members many such violence/exploitation are also nip in bud, as reported by them. But, the spirit to deal with such cases is not uniformly followed in all the groups in the district, as 28.90percent members under both the models said they are concerned about such cases, but subject to certain limitations and after having permission from their husband, with lesser degree of interest to resolve those problems. A small percentage of respondents i.e. 3.13 said they are not at all concerned and leave those cases, even if reported to them, as their personal or family matters. (Table-7.31)

9.1.f. Problems with Sustainability:

1. Problems with Sustainability of SHGs in Barpeta District:

i. It is found that, of the Sample SHGs (i.e., 260 SHGs), 72.69 percent SHGs have reported about various problems for their sustainability under both the models in the district. (Table-8.1)

ii. Further it is found that, SHGs under model-II faced more problems compared to the SHGs under model-III. As 75.23 percent SHGs under model-II have reported about problems with sustainability, which is even more than the total percentage, under both the models in the district. And the same under model-III have been reported by 59.62 percent SHGs, which is comparatively less than model-II, in the district during the period of study. (Table-8.1)

iii. Thus, SHGs under model-II are found more victimized with problems of sustainability as such nearly half of the total SHGs under this model are found defunct during the period of study. Again, among the intermediaries under model-III, the SHGs under the supervision of Bandhan have found with least problems of sustainability and that is expressed by only 44.44 percent of SHGs, followed by 60 percent SHGs under RGVN and 73.68 percent SHGs under ASOMI in the district during the period of study. (Table-8.1)

iv. It is found that, SHGs in Barpeta District are mostly suffering from lack of Loan/ Credit on time as reported by 95.24 percent SHGs under both the models in district, who got problems, and this affected them every way in their functioning as the groups are unable to make timely decision for this. And this problem has become major problem for sustainability of SHGs in the district during the period of study. (Table-8.1)

v. The problem of ‘loan/credit not obtained on time’ is found more acute in case of SHGs under model-II in the district, where 96.34 percent SHGs have reported as they never obtained their loans on time and the same in case of SHGs under model-III stood at 88 percent, which though comparatively less but remains an acute problem for their SHGs in the district. (Table-8.1)

vi. Training provided to the SHGs in the district is found as next major problem, as 88.42percent SHGs who got problems, have reported about the Training programme provided to them is either not understood by them or not benefited or no follow-up after the training is being taken. Again, the training is provided either to one or two members of a group which is also not sufficient for the group and training to one or two members of the groups is considered as training for the whole groups. (Table-8.1)

vii. Limited Amount of Loan is found as another major problem with sustainability of SHGs in the district, and 75.26 percent SHGs in the district have reported that they never obtained their required amount of loan/credit. It is generally started from ₹ 10, 000 and on satisfactory utilization, next they availed double amount and so on. But those limited amounts are not sufficient in present day context and create hindrance in their working. (Table-8.1)

viii. It is also found that due to lack of adequate amount of loans, the groups are unable to perform in the way they could perform. The problem is found more acute in case of SHGs under model-II than model-III in the district, as 78.05 percent SHGs under model-II have reported it as serious problem to their sustainability and that is 60 percent as reported by the SHGs under model-III in the district during the period of study. Thus, SHGs under model-II in the district suffer more for inadequacy of loan/credit than SHGs under model-III. (Table-8.1)

ix. Dealing with banks is a part of SHG activity, and it is found that, 37.89 percent SHGs under both the models have reported as they got problems in dealing with banking procedures in the district and same for the SHGs under model-III is found a bit more to 44 percent, as reported by them as the problem with sustainability of their SHGs. (Table-8.1)

x. Further, unsatisfactory incomes and savings is also found as strong reasons or problem of sustainability. As the groups reported, they do not obtain even little satisfactory income and savings from the SHGs in terms of their labour and other effort made, as reported by 30.53 percent SHGs under both the models and interest level of members have come down due to this. (Table-8.1)

xi. It has also been found that, 73.08 percent of the total SHGs under both the models have reported as they got or faced problems with those core factors of SHGs, like, Thrift, Micro-credit, Group and Management. The problem is found more acute with the SHGs under model-II in the district, where 75.23 percent of their SHGs have reported as having faced problems even with the core factors of SHGs. Again, the same under model-III have been reported by 61.90 percent SHGs in the district during the period of study. [Table-8.2(A)]

xii. From further analysis, it is found that, 77.89 percent SHGs under both the models have reported as they are having problems with the very fundamental and core factor of microfinance, i.e., with ‘Micro-Credit’. As per their report they did not get adequate amount of loan/credit from the banks or intermediaries as required by them and inadequate amount of credit have weakened their performance. Again, the position of SHGs under model-II and III is more or less same in the district, which is reported by 78.05 and 76.92 percent SHGs respectively under each model in the district. [Table-8.2(B)]

xiii. The problems with management of group is also reported by 35.79 percent SHGs under both the models and SHGs under model-III have found with more management problem, as 50 percent SHGs have reported such problem and the same under model-II is reported by 33.54 percent SHGs in the district. The problems with other two factors are not so acute in the district.

xiv. On the issue of multiple memberships of members, it is found that, 81.16 percent SHGs under both the models have said ‘No’ they do not have multiple membership. More openly, 3.46 percent SHGs under both the models have revealed as having memberships with other groups as well. And 7.69 percent SHGs in the district under both the models have expressed their view as ‘May be’ and ‘No Idea’ on the issue. (Table-8.3)

xv. On the issue of efforts made to mitigate the problems of SHGs, it is found that, those efforts are found very poor as 44.67 percent SHGs under both the models in the district have expressed the sufficiency level of the supporting measures made is ‘very poor’. Followed by 27.66 percent SHGs under both the models who said they feel partially sufficient about those measures taken for mitigating the problems with sustainability of SHGs. Again, 10.46 percent and 4.26 percent SHGs feel those measures as ‘Sufficient’ and ‘Very Effective’ and helpful for mitigating the problems of sustainability of SHGs in the district. [Table-8.4 (A) & (B)]

2. Problems with Sustainability of Intermediaries in Barpeta District:

It is found that, the intermediaries also face some problems which affect in the smooth functioning of SHGs in the district. More precisely, the intermediaries find problems with maintenance of books of accounts of SHGs, lack of willingness of members, problems in providing loans to groups, group management, workloads, etc. are established as the problems with SHGs in the district, during the period of study. (Table-8.7)

9.2. Suggestions:

On the basis of the findings of the study, the following suggestions have been made to improve the performance of SHG Models of microfinance to exercise better service to the SHGs.

1. The performance of SHG model-II is found weak in comparison to model-III in the district during the period of study. Delays in extending services and loans, procedural norms, rush of groups, poor training and monitoring, avoiding responsibility and corruption are the main reasons. Thus, the mechanisms under model-II need to be strengthened and have to assure more speedy and transparent services. Further, all the officials have to act in coordination in the district.

2. The SHGs working more efficiently should be separately listed and they should be given importance for loans/credit, loan on time, adequate and more frequent loans, only on the basis of their performance to build those groups exemplary SHGs, which will motivate other groups. Though, SHGs are graded on the basis of their performance, but they are not provided financial assistance and other services at par with grades, that should be maintained.

3. The study has revealed that there is a positive contribution of SHG models of microfinance to the beneficiaries in terms of employment and income. Thus, regular training to SHGs with innovative ideas and with motivation is very essential for the survival and development of SHGs in the District, as it is one of the acute problems found in the

district with the SHGs. Further, groups should be trained to adopt Multiple Income Generating Activities, instead of one or two, which seems more beneficial to the groups. As the members can act on the basis of their skills in different activities and also help to generate regular income through-out the year.

4. The SHG members should be trained on micro entrepreneurial activities with the involvement of NGO's and expert professionals. The SHGs could be developed to micro-industry easily and many SHGs in Barpeta District are ready to start such industries. But, due to lack of follow-up and support system none of the SHGs is yet to start such industries. So, some special attention should be given in this respect.

5. As SHG members in the district are mostly women and are less educated, so, educated members in the group should spend some time in their regular group meetings to help other members to acquire knowledge, which is very important for the sustainability of SHG. And intermediaries in the district should develop some provision to adopt this idea by every capable group in the district.

6. Delay in sanctioning loans and also red-tapism in the banks, in DRDA office, in Block offices must be curbed by proper supervision and the process should be minimized. Again, the SHGs under model-II are found to be suffering more from this problem, than SHGs under model-III. So, intermediaries' deals under model-II need to take some corrective steps to sort-out this problem, further, they can adopt the system of model-III, even partially.

7. Some special care and training facility is needed for the maintenance of books and accounts of SHGs, and, Sa-Dhan(The Association of Community Development Finance Institutions) is already working with the ICAI on formulating

and implementing reporting and disclosure standards more appropriate to microfinance, thus, intermediaries can communicate with Association in this regard.

8. As the SHG members in the district are mostly women and basically from remote areas, so they face many difficulties in reaching their transacting Banks or NGOs/MFIs branches. So, an effort to enhance the ‘mobile microfinance service’ or spot delivery of loan and other services to the groups will avoid such problems and will enrich the service.

9. The existing credit/loan limits and loan slabs need to be increased, considering the capital requirements in present day context, thus, the gap of demand and supply for loans of SHGs can be reduced in the district.

10. The regulatory bodies have to be more active and should frame some policy regarding deposit mobilization of SHGs. There exists the need for SHG promotional institution (SHGPI) to manage the SHGs, especially, for the SHGs under model-II for long and active sustainability in the district.

11. There should be some flexibility in banking rules, so that, the poor people can be more benefited. Financing banks have to be more co-operative in dealing with SHGs considering their back-ground and they should not treat all the SHGs alike; efficient groups should be given more importance, which is good both for Banks as well as for SHGs. As those groups earn well, thus banks need not to suffer from NPA.

12. To have speedy service and more out-reach, use of technological advanced IT (Information Technology) tools and efficient management information system for the intermediaries and NGOs/MFIs is highly recommended.

13. There should have SHGs Grievance Cell at the Block level or at least at the District level to note and to take steps against the mal-practices if reported by members or by the groups. Again, they should be informed about their rights and should not hesitate to express anything, if found wrong.

14. Continuous monitoring of SHGs need to be undertaken by the banks and neutral bodies or by the funding agencies/ institutions in order to maintain the quality and sustainability of SHG. Further, the Reserve Bank of India should look into the supervision and regulation aspects of the sector in the interests of millions of the poor which are getting access to financial services through this mode.

9.3. Conclusion:

From the findings and observations, it can be concluded that, SHG model-III is more dedicated to the field of microfinance and for SHGs and extending more quality and sustainable services to its members.

As regards volume of services, model-II roofed more than model-III, but, in terms of growth and service quality, model-III is more actively working in Barpeta district. Again, performance on the selected parameters of this study, model-III has been performing better than model-II; this signifies better service quality, management and monitoring of SHGs under model-III in the district during the period of study. In sustainability of SHGs, again, SHGs under model-III are more sustainable and of quality as 91.26 percent SHGs in average are actively working and that under model-II is only 51.64 percent during the period of study in Barpeta District.

Thus, model-III is performing better in Barpeta District among the SHG models, but it needs proper regulation for further active service to its members and to have more reliability of people and that will reduce the existing malpractices. Sincere efforts from regulatory authorities in this regard will enable the service providing intermediaries, i.e., NGOs/MFIs, with more strength in their operation. Further, the intermediaries under model-III could be developed to full-fledged financial institutions with the help of proper regulation, which will be more sustainable both for the SHGs and intermediaries (i.e., NGOs/MFIs) engaged in the service. On the other hand, enhancing the procedural norms and strict rules, both for the service providers as well as service seekers under model-II, with transparency and time bound service reporting can only improve the service under model-II in the district.

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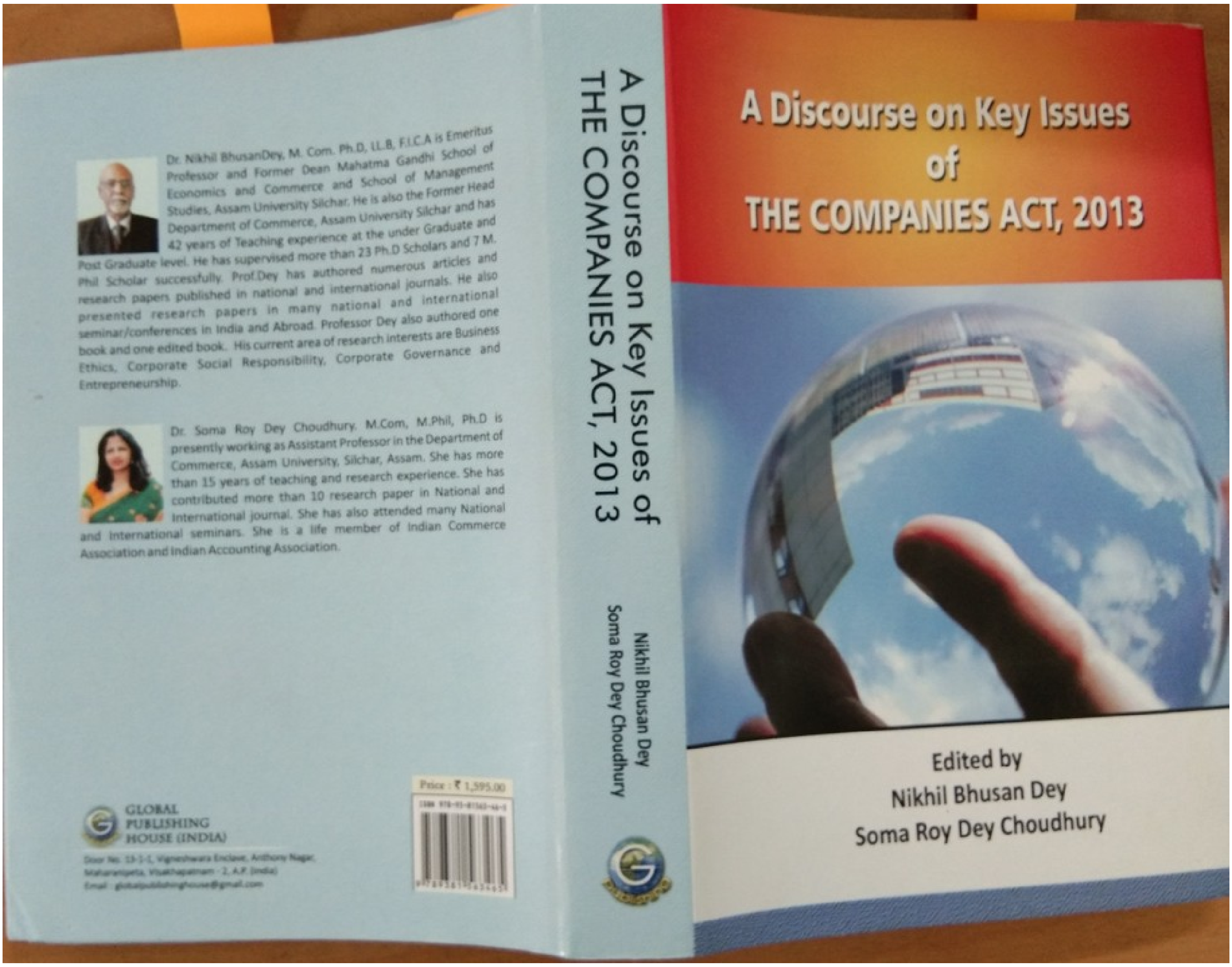
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Foreword

I am very glad to write a foreword to "A Discourse on Key Issues of the Companies Act, 2013". The instant Discourse contains 26 papers which had been presented at the National Seminar on 11th and 12th September, 2015 organised by the Department of Commerce, Assam University, Silchar.

A reference to the contents of the volume shows that the authors have dealt with a a large variety of topics in different aspects of company management and that of the limited liability partnership. The importance of each of one of them is tremendous.

Corporate accounting, internal financial controls, financial reporting, corporate governance, auditing the auditors, investment protection, corporate social responsibility, etc. are some of the burning issues where there may be many interesting academic debates and research.

Such debates along with international developments on the subjects will add additional flavour.

Any attempt to publish the seminar papers, after proper

Perspective of Corporate Governanceon the Companies Act, 2013

Shantosree Dutta
Parag Shil

Abstract

The replacement of the colossal Companies Act, 1956 by the long awaited updated version of Companies Act, 2013 might certainly be regarded as the most significant development in Indian history of corporate legislation. The previous Companies Act, 1956 was found to be less effective mostly because of its being too obsolete and, thereby, its failure to resolve the present day's complicacies. However, the very recent Companies Act, 2013 is a milestone of legislation and is expected to influence all corporate companies throughout the nation. An attempt has been made by the Companies Act, 2013 to fix the different provisions with regard to establishment of firm Corporate Governance. A substantial effort has been made to increase the compliance on corporate governance and also it claims to pact with some pertinent matters. This has in turn created a massive accountability and compulsion over the Managing and Administrative Heads of Indian Companies. This paper takes a closer view of the latest Companies Act and its impact on the present scenario of Corporate Governance.

Key words: Companies Act, corporate, governance, ethics, laws.

Introduction

On 29th August 2013, on accord with Honorable President's agreement, The Companies Act, 2013, was enacted which has replaced The Companies Act, 1956. The Act came into force on

12th September, 2013. The Companies Act, 2013 is an Act of the Parliament of India which supervises and regulates the incorporation of a company, directors and dissolution of a company. The main aim of this Act is to improvise corporate governance, simplify the regulations, and motivate the minor investor's and to initiate the role of supervisors for proper governance.

The new Companies Act, 2013, comprises of 470 sections which infers itself of being more of a rule-based legislation where a considerable part of the legislation is in the form of rules. The 2013 Act has not only incorporated many new ideas and concepts but also has made an attempt to update a number of crucial points via introducing new definitions and concepts. A new form of entity named 'one-person company' has been introduced in this updated Act. However, considering the most substantial provisions of the Act, restraining voting rights of concerned shareholders on associated party transactions, recognition of board liability to stakeholders in addition to shareholders, and the extension of several superior governance necessities to comparatively large unlisted corporations may be highlighted as the major amendments of the Act. Although there are still issues which are yet to be addressed in order to achieve the ultimate excellence, which is still a constant pursuit. The most important matter is whether or not the legislative and regulatory intent would be able to convert in to effectual and time bound enforcement. However, there also exist some signs of regulatory activism which provide a ray of hope as a positive measure of cautious optimism (Balasubramaninam, 2014)

Implications of Corporate Governance in Today's World

"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society". (Sir Adrian Cadbury in e-Global Corporate Governance Forumi, World Bank, 2000).

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An Analytical Construct on Convergence of Corporate Governance with Corporate Social Responsibility

Prantik Roy
Bidyut Chakravarty
Parag Shil

Abstract

There is this contradictory picture where a school has facilities installed from funds under Corporate Social Responsibility (CSR), but the condition of the teachers there is appalling. This has been the state of affairs in framing policies for so many years. Although, there are these instances in the past when the Government and the Corporate Sector have harmoniously worked together, like creating awareness among school children on the benefits of hand washing under CSR. It cannot be ignored that the agencies of the United Nations play a vital role in bringing together the efforts of the Government and the Corporate Sector. However, the new Companies Act which was passed in 2013 is a positive step towards corporate governance and CSR morals. The present Act requiring a company to disclose reasons for failing to take up activity or activities relating to CSR making this provision de facto mandatory. Whilst certain of these changes may seem overly prescriptive, a closer analysis leads to a compelling conclusion that the emphasis is on Board processes, which over a period of time would institutionalize good corporate governance. The study finds that apart from mandatory spending under CSR activities, there are good reasons for convergence of Corporate Governance with CSR activities and so called CSR practices. CSR is Corporate Governance driver by encouraging the ethical corporate

on the Board. Further, the statutory provisions under the [illegible] Act as regards CSR now are making it more vibrant than ever before. Finally, the need of the time is not to look at them only as mandate in pursuance to the statutory provisions, but to look at them as essential to the process of achieving sustainability goal. The present work is just an initiative towards developing a framework for convergence of governance practices of companies with CSR philosophy. But, the same requires further research to move it in the direction envisioned by the present work.

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Companies Act, 2013 - A Comparison with the Companies Act, 1956

Dr. Gautam Chandra Deb
Nikhil Bhusan Dey
Parag Shil

Abstract

The introduction of Companies Act, 2013 has brought out a new phase to the corporate sector. It has been enacted to consolidate and amend the law relating to the companies. The changes in the existing company law (i.e., the Companies Act, 1956) were indispensable due to change in the national and international economic environment. The objective behind the enactment of Companies Act, 2013 is to provide for lesser government approvals and enhanced self-regulations coupled with emphasis on corporate democracy. The Act is a progressive and forward looking which promises improved corporate governance norms, enhanced disclosures and transparency, facilitation of responsible entrepreneurship, increased accountability of company managements and auditors and stricter enforcement processes.The Companies Act, 2013 marks a major step forward and appreciates the current economic environment in which companies operate. It goes a long way in protecting the interests of shareholders and removes administrative burden in several areas. This paper is focused on the comparative analysis on some of the important provision of Companies Act, 2013 vis a-vis with Companies Act, 1956.

Keywords : Companies Act 1956, Companies Act 2013, Corporate Governance, Corporate Social Responsibility.

Introduction

The Companies Act, 2013 has been enacted to consolidate and amend the law relating to the companies. The Companies

Trend, Pattern and Determinants of Foreign Direct Investment in India

Over the last couple of years, there has been a surge in the movement of trade and cross border investment. This has been possible because of the substantial globalization of world economy. FDI is a tool for economic growth through its strengthening of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the Indian economy. FDI to developing countries in the 1990s was the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non–debt inflows. Talking about India, FDI has risen considerably in post–reform period. The importance and category of FDI has changed significantly since India has opened up its economy but still the country is far behind to attract FDI in comparison to some of the developing countries. The main objective of the book is to present an overview of the FDI inflows in India including trend analysis during post-reform period. To study the impact of FDI on Indian economy .

Dr. Shil, Assam University Silchar(India)has specialized in MARKETING and FINANCE. He stood 1st in M.Com in 1999 from A.U.S. He has authored 1 book and 48 papers in referred journals & editedbooks. Dr. Shil has 3 yrs UG & 10 yrs PG teaching experience & guided 30 PG projects. 1 scholar has awarded & 8 scholars pursuing PhD under his guidance.

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Parag Shil

Trend, Pattern and Determinants of Foreign Direct Investment in India

A Sector-wise Analysis

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