



Università degli studi di Torino  
Facoltà di Scienze Politiche  
Corso di Laurea in Scienze Internazionali

Tesi di Laurea Magistrale  
**Enhancing Social and Financial Inclusion through Credit  
access:  
Evidence from a field experiment in India**

**Relatore:**

**Roberto Burlando**

**Correlatori:**

**Mauro Bonaiuti**

**Luca Streri**

**Candidata:**

**Gemma Cavaliere**

**Anno Accademico 2013-2014**

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## RINGRAZIAMENTI

*Allo staff dell'International Labour Organisation(ILO), per avermi fatto conoscere personalmente i grandi nomi che cito in questa tesi e all'European Microfinance Network, per avermi introdotto al mondo della microfinanza in Europa generando la conseguente curiosità di sondarne specificità e differenze con un paese in via di sviluppo. Ad Arbor Charitable Foundation e al prof. Roberto Burlando, per avermi permesso un'esperienza così significativa. Ai miei correlatori Luca Streri e Mauro Bonaiuti, per aver accettato di seguire e correggere il mio lavoro.*

*Alla mia famiglia, per non avere opposto barriere insormontabili alla mia curiosità di scoprire il mondo. A mio padre, perchè l'ironia e la giocosità con cui affronta la vita mi sono sempre state da modello per superare i momenti difficili. A mia madre, per essere la mia prima ammiratrice, per la pazienza e l'interesse dedicato al mio progetto di tesi; a mia sorella Lorenza, per la sua spontaneità e severità nel correggere il mio entusiasmo, quando ingiustificato.*

*A mia nonna Chiara e a mio zio Claudio, perché la mia determinazione è frutto anche della loro fiducia e del loro sostegno.*

*Ai compagni di viaggio, perché sanno sempre quando raggiungermi.*

*Ai ritardi, le notti in aeroporto, i viaggi in bus, per avermi dato le migliori ispirazioni.*

## INTRODUCTION

This research analyses and interprets the status of the microfinance sector in Andhra Pradesh, Southern India, in 2014; four years on from the microfinance crisis of 2010 that affected India and most notably the State of Andhra Pradesh. The crisis highlighted the weaknesses of the sector, thus providing the opportunity for reevaluation of the best practises in microfinance services as an effective way to reduce poverty.

While the sector is struggling to reaffirm its credibility, the political context has been subjected to a major change this year. The division of the internal Telangana occurred the 2<sup>nd</sup> of June, 2014, and resulted in the new 29th State of India, spanning the Coastal area of Andhra Pradesh.

At present, microfinance companies are trying to resume operations in both States with new business models, promoted by Microfinance Institutions Network (MFIN), an industry body representing the sector. The reevaluation of these practises in the Indian Microfinance sector and elsewhere would eventually bring new vital energy to the initial social mission of microfinance as a way to improve low-income people lives. Although hope is that the leadership of the States will adopt an innovative and progressive strategy in favour of Microfinance, the side effects of the 2010 crisis still remains and the sector, especially in Telangana, is in a wait-and-watch mode.

Since I focused on financial inclusion as the most achievable aim of the sector, I found through the field experience that economic terms does not justify the effective improvement of people lives I had the opportunity to experience. I applied then the human development approach in those variables mostly related to microfinancial activities, looking for a set of elements accounting trust for the future of the sector.

I integrated the activities of Arbor Charitable Foundation- a foundation formed 10 years ago that continues to provide social services for the poor in Andhra Pradesh - into the human development

approach. Recent years have seen the development of the microcredit program through two factors: the extension of the local staff, who are willing to reach even the most isolated area in the district of Khammam and the motivation of women, raised by animators' activity in each village involved in the program.<sup>1</sup>

The aim of this research is to verify the relationship between the increase in financial inclusion ratio and the presence of overindebtedness and usury among the interviewees. Moreover, with reference to the field experience, through interviews and observant participation, I want to disclose whether the Arbor Program raises financial awareness as an effective tool to fight usury and the lack of autonomy of poor women in the villages.

In the first part, I introduce the methodological framework that helped me building the interview's model and facing the contextual difficulties, from the illiteracy of local people to the translation-related problems in the data transcription once I recorded it. Afterwards, I move to the political context, discussing the political situation in Telangana at the present time and major issues related to the independence of the new Telangana State. I then get closer to the sector, summarizing the reasons that led to microfinance crisis in 2010, bringing the rise of human development ratio as a remarkable outstanding of the microfinance history.

The second part is about the Arbor development program, describing the geographical area covered, the interviewee profiles and the limits of the field research. In particular, I analyse 8 variables: job, health, education and training and -to assess the level of financial awareness provided by the program- debts, loan, purchasing power and loans' purposes. By analyzing the results, I underline the connection between human development and financial awareness through microfinance.

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<sup>1</sup> Local Staff and people included in the microcredit program are in the majority women. I will explain the specificities of animators' activities in the 4<sup>th</sup> chapter of the present thesis.

## **1. METHODOLOGICAL FRAMEWORK**

The choice of methodology is the first step into no matter which research field. Firstly, I want to introduce the limits of a purely quantitative or qualitative research, providing a synthesis of the meanings commonly conferred to these diametrically opposed visions of social research. Then, I will briefly review all the main techniques in impact evaluation of a microcredit program experienced in different countries.

### **1.1 A pragmatist approach**

It may be said that quantitative and qualitative extremes work as a simplification of a variety of options included in a larger spectrum where the limits are well identified. They correspond to the realistic end and the opposite subjectivist one of imaginary straight line. The methodology applied in this field experience is included somewhere in the spectrum between the two variables above suggested, reality and subjectivity. I researched the Aristotelian “golden mean” indeed here, rejecting these two extremes, as one of excess and the other of deficiency, and arranged one specific position in between.

At this point, the first methodological challenge is to show the advantages of presenting the study in a holistic framework as both paradigms, sometimes called epistemologies, apply to the topic apart from being used in impact studies for microfinance.

Research methods include the qualitative and quantitative strands, whether you consider them complementary or being in untreatable contrast. The binomial philosophy that stays behind reflects not only a methodological issue but also strictly concerns two different world-views.

From one side we have the quantitative research, which -brought to extreme terms- could be labelled as “realistic” or “positivist” ; moving from realism, the positivist approach unveils reality through the use of quantitative data and the researcher uncovers the truth because she/he is thought

as able to detach her/himself and minimise her/his personal beliefs or attitudes. The extreme point of the spectrum shows the world as controlled by cause and effect laws; consequently, the researcher can elaborate theories on these laws and the result will eventually find their rejection or their provisional acceptance. Evidence is made of a direct link between quantitative methods and natural science, in this sense applied to social research: scientific thinking uncovers the truth because is the only acceptable way in which the world works.

Mark Pitt and Shahidur Khander published one of the most remarkable studies in microfinance<sup>2</sup> in the *Journal of Political Economy*, in 1998. The quasi-experimental survey initiated economic impact studies on microfinance, particularly because It is a remarkable proof of the microfinance efficacy in fighting poverty in some Bangladeshi villages for key development indicators like labor supply, schooling, household expenditure and assets (Pitt and Khander, 1998).

Pitt and Khander had a random assignment: the research strategy took advantage of the *selection bias*<sup>3</sup>, which was in practical terms the ownership of less half-hectare land; they selected two random groups among participants and in the selection criteria, they considered irrelevant the fact that some applicants were shortly under or above this threshold. Pitt and Khander administered 1800 questionnaires covering an area of 87 villages and the results highlighted the economic impacts on household consumption, especially for women; for instance, household consumption expenditure increases 18 taka for every 100 additional taka borrowed by women from these credit programs, compared with 11 taka from men. One later study on the same quantitative data claimed that the eligibility criteria was disregarded, making relevant the difference between participants and control group. On the same quantitative data, Jhonathan Morduch and David Roodman could not

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<sup>2</sup> Pitt, Mark M., and Khander, Shahidur. "Household and Intrahousehold Impacts of the Grameen Bank and Similar Targeted Credit Programs in Bangladesh" Manuscript. Providence, Brown Univ., Dept. Econ., March 1995.

<sup>3</sup> Achen (1986) was the first to introduce the idea of selection bias into Political Science. Selection Bias is also a long-standing issue in research on public opinion and political behavior.

reply the same results, so that they suggested that some statistical problems could have affected Pitt and Khander results.

In 1999, Shahidur Khander carried out one additional research on the same sample confirming the validity of his previous research, even If the results were drastically reduced: for any 100 taka borrowed, the impact on households' consumption amounted at zero for men and 15 whenever the borrower was a women. The availability of longitudinal data could show major changes of individual behaviour and their relative weight on the variables to measure. The use of the temporal dimension did not solve all the problems, because many other factors were not measurable in time and data differentiation. Personal behaviour varied in time between the two investigations but the reasons were external to the microcredit program, for instance the governmental intervention, promoting public policies to support poor family and granting subsidies to increase households' consumption.

Perhaps the most difficult part of the evaluation was determining causation: whether the program itself was causing the changes that the researcher observed in the households daily life. Events or processes outside of the program might be the real cause of the observed outcomes (or the real prevention of the anticipated outcome).

In a first attempt to order the subjects that are the focus of study, I tried to modify some questions in the interview trial to have measurable answers<sup>4</sup> . Unfortunately, the operation did not work with all the indicators: It was evident from field experience and data mining that the micro-credit program and the other human development activities should not be isolated from the major changes occurring in the society. External agents, such as the political context and social dynamics, had a relevant influence indeed on the survey.

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<sup>4</sup> In order to verify the reliability of previous field studies, I used the same interview structure as Ballari (2011) ; the innovative variable was the use of the translator who was a foreign actor of the microcredit program.

Social and political convulsions in the year of Telangana independence had shaped the sensibility on microfinancial activity in the area. Moreover my presence on the field, being a western woman not speaking local language, had certainly some resonances on how the woman interviewed perceived me. It was clear that I should have moved back to the theoretical frame-work because the “measurable world” (brought to extreme) did not match with my first findings about a general increase in human development while measurable indicators did not show any major change. I want to discuss now how much the qualitative approach has contributed to my work.

We can say that, opposite to the positivist epistemology, “qualitative researchers” are part of the world they are observing because their personal values influence the *phenomenon* itself. In a simplified view, the reality is not pre-existing, but the observation process modifies it, and the pattern followed became subjective. Qualitative research refers to a number of data collection methods; just to mention some of them, the qualitative *toolbox* contains interviews, discourse analysis and case studies.

One classic example in the microcredit history is impact assessment through 4 factors: 1) Economic and Financial Impact measures of the program, 2) Health, well-being & Environments measures, 3) Education and Advancement measures and 4) Socio-cultural impact Measures.<sup>5</sup> *Village Phone*<sup>6</sup>, introduced at the end of the 90s and sponsored by Grameen Bank, which has modified the attitude towards entrepreneurship in Bangladesh. The program, providing a small loan to purchase one mobile phone, is still a successful example of promoting social inclusion through microcredit: in rural villages microentrepreneurs purchased the phone to operate a business. In the villages some women acquired the social status of mobile phone provider or *phone ladies*, as they

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<sup>5</sup> See K. David, T. Wood, Village phone replication manual, Vol. 198 (Google eBook), pg.77.

<sup>6</sup> “Bangladesh is ideally suited for Village Phone program. It has an extremely high population density (958 per sq. Km in 2003-the country has a population of over 140 million) and a tele density of only 0,79 telephone subscriber per 100 inhabitants.” World Telecommunication Development Report, 2003, International Telecommunication Union.

were called, because they guaranteed mobile phone services to all village people. A typical phone lady provided the telecommunication services to the village while earning profits for herself, but this was only a side effect of raising social capital. By the end of 2009, about 364.000 village phone women have together taken loans and invested for improvements in social inclusion and personal accomplishments. Empirical evidence showed that episodes like this could not be taken into account by Khander-like analysis, because social inclusion and poverty reduction depended not only Economic and Financial Impact measures, but also health, education and socio-cultural impact Measures.

My research is similar as concerning different indicators and methodology to assess the microcredit program impact. As regards the empirical material of the study, I analyse interviews and observant participation, placing emphasis on quantitative data when needed. The methodology applied in this sense could eventually be associated to a worldview which is towards the realistic end of the spectrum and could be labelled as a pragmatist<sup>7</sup> approach. I introduced different methods where I found relevant, quantitative or qualitative aspects for the variable studied. The pragmatist approach comes from the implications of the following aspects. Firstly the multidisciplinary nature of the research which integrates political, sociological and anthropological aspects. Secondly, the regional scope, the use of a wider range of source for identifying relevant literature, the development and testing of indicators to assess the mechanisms of a microcredit program. Thirdly, the tight period within which the field experience was realised.

Quantitative method is the toolbox to which I refer explaining the evolution of the hypothesis and the evidence of my field research, while the qualitative paradigm shows how effectively the

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<sup>7</sup> Pragmatism as a movement promoted in the USA by a school of philosophers – Peirce, Dewey and James among them. One the main Statement of the philosophical current is that the meaning and the truth of any idea are a function of its practical outcome(s). Nevertheless truth is constantly changing because of continuous updating in human problem solving ; the main problem to solve is not whether something is true or right but whether it works at the our established time.

research explains and predicts microfinance development, as opposed to how accurately it describes objective status of the sector.

According to these considerations, I will highlight the advantage of a pragmatist approach in next paragraph; my attempt is to provide some evidence to the fact that it is the most appropriate method.

## **1.2 Mixing data**

Quantitative data were particularly appropriate for the testing of hypotheses. Firstly I wanted to explain whether there was a relationship between MFIs presence after the 2010 crisis in Andhra Pradesh and overdebtiness in the region but, like all the hypothesis accepted during the research period, they showed their provisional character and new data emerged that rejected the initial one.

More specifically, I found out that there was hardly any MFI in the district of Khammam, where I stayed during the research period. Then it was illogic to focus on a somehow missing element of my field experience. So that, I decided to analyse the financial data of Arbor Charitable Foundation, the foundation that hosted me during the period, but their development program involved a larger set of activities than microcredit. If I wanted to write on the financial management I would have lost my wish to write on microfinance, or I would eventually minimize the work of the Charitable Foundation, since it was not conceived at the beginning as a way to provide money or financial services to the poor.

In short, thanks to quantitative data, I could analyse economic data, highlighting the relationship between social/financial inclusion and credit access. Arbor development program induced a relevant change because of the very high rate of financial excluded people in the region and the rigid social structure of caste in India. Thus, some questions in the interviews are conducted through quantitative research method since I convert a series of questions into numerical data to elaborate

statistical analysis. Aliaga and Gunderson (2000)<sup>8</sup> describe quantitative research as “explaining phenomena by collecting numerical data that are analysed using mathematically based methods, in particular statistics”. Moreover, following Cohen Statement (1980), quantitative research is described as social research that employs empirical methods and empirical Statement ; “empirical” as far as the Statement describes what is the case and the real world rather than what out to be the case<sup>9</sup>. The evaluation must be empirical since it determines the degree to which a policy reaches or not a specific standard or norm.

When I investigated why and how of social phenomena, I opted for the qualitative approach, through storytelling and observant participation during the program meetings.

The two approaches here are taken as a whole because they are complementary and functional to the complete comprehension of the facts I was meant to investigate. The holistic approach is supported by Carr and Kemremis theory, when they treat the risks of a purely qualitative approach; they claim that the meaning assignment doesn't come in a *vacuum*, but It has social and historical connotation, and the transformative power, given by the objective aspects of the social situation (Carr, Kemmis, 1990).

There are some questions, which are perfectly suitable to the quantitative approach, as the data are available through numerical form. For instance, questions like “How many children do you have? How many times do you eat per day? ” show evidence in numerical data. Nonetheless, in Social development studies, very few variables seem to be numerical “by nature”.

Data analysis tool is not crucial as data collection instrument. According to Pourtois, methodology should be considered as the initial part of every scientific research, including the qualitative

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<sup>8</sup> See B.Gunderson, M. Aliaga “*Student Solutions Manual for Interactive Statistics Paperback*” August 29, 2005.

<sup>9</sup> See L. Cohen and L. Manion, *Research Methods in Education*, London, Groom Helm Ltd., 1980.

research in Human Science. This process of elaborating one technical tool is, in Pourtois theory, far from being neutral (Pourtois, 1988)<sup>10</sup>.

This is not to say that researcher has to neglect the framework of a participative and interpretive approach: even from the analysis of Pourtois the action-research could be considered scientific as long as the results emerged by mutual understanding of the action group, composed by researchers together with the local population. This results are conceived as understandable, truthful, validate and authentic. The truth is not a quality of the individual or of the authority, but It has been built by the group of actors through active and democratic discussion. Lewin follows the same pattern, observing that the environment has the same importance as the specific object to be analysed<sup>11</sup> (Lewin, 1947).

Afterwards the in-depth qualitative research is realized using the capability approach as the central conceptual guide. In the beginning, the major problem was how to operationalise the capability approach, considering the relevant discussion in literature about which capabilities are to measure. Referring to the previous researches, and in particular, that of Ballari (2012), I selected those capabilities who seemed closer to the hypothesis of an existing interrelation between financial inclusion and human development, adding the capability of “financial inclusion” as essential variable in the survey.

The conclusion of the study will be displayed using statistics in order to provide empirical references to the results. Being not particularly keen at mathematical based methods, I disposed of computer softwares, relatively easy to use, that allowed me to do the analyses.

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<sup>10</sup> “Les techniques instrumentales constituent un secteur extrêmement important à prendre en compte dans toute recherche scientifique. Pour entreprendre une étude, il faut commencer par se procurer ou créer les instruments adéquats. Cette démarche est loin d’être neutre. Sélectionner où élaborer un instrument, c’est opter pour une conception théorique qui va constituer le fondement de l’étude entreprise.” See “Epistemologie et instrumentation en sciences humaines”, J. P. Pourtois et H. Desmet, Liège,2011.

<sup>11</sup> Lewin is often recognized as the "founder of social psychology" and was one of the first to study group dynamics and organizational development.

### **1.3 Cross-language research and qualitative data**

Although was an exclusively methodological prerogative of antropologists, collecting data from one language and exposing results in a different one is a widely spread practise of social sciences researchers, ad the number increases together with mobility programs that involve students, teachers but mainly researchers. The amount of pubblications -including thesis, papers and projects financed by Research Institutes that has to deal with translation problem- has raised enormously in recent decades. Since the demand of mutual understanding requires researchers' networks to speak the same language as well as individual and organizations need to integrate information with no regard to national and cultural boundaries. The same occurs through research's tools, which are prepared in one language, paying attention to cultural differences, are then applied to others.

The scientific approach from linguistical and cultural prospectives, which are far from the society we need to investigate, might involve a set of variagate choises in data collection. With reference to this research, I decided to administer the interviews in Telugu -the National language in Andhra Pradesh- mainly because the majority of the interviewees were unable to read and write and whenever they speak little English, It was not sufficient to answer qualitative questions set in the interview model I prepared.

Thereupon I conducted the survey in Telugu, thanks to the help of an external English-speaking translator who was working for a charitable social service society led by the bishop of the Khammam diocesis. The bishop firstly introduced me the translator because in his opinion, a part from being a reliable English speaker in the area, she was familiar to the topic. The key informant in this case was the bishop of the diocesis<sup>12</sup> who knew personally and professionally the translator.

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<sup>12</sup> Rosalind Edwards developed the notion of key informants conventionally used in social research to refer to professionals or lay informants who provide a source of introduction to and information about the field of investigation. The aim is to encompass a reflexive exploration of interpreters' social locations, values and beliefs, and understanding of their relationship to the researcher/s and interviewees (EDWARDS, 1995; 1998)

The interviews were structured in semi-open questions and observant participation; I decided to administer some of the questions through multiple-choice because I considered them more understandable, not only for the local women, but also for the translator which was covering this role for the first time in her life.

Nevertheless, to guarantee the qualitative approach, the multiple-choice answers were provided to women only when I noticed that the sense of the question was altered or the interviewee stayed in silence, waiting for more clarification. Even if I could not evaluate if the translation was literal, translation-related problems were the first challenging aspects of my research.

When the researcher and the translator are not the same person, the translation quality is mainly influenced by competence and translator's autobiography<sup>13</sup> that Temple defines as "material circumstances" being the researcher and the translator part of the context producing data (Temple, 2006). This is not intended as a merely technical aspects with poor little influence on the results but the deep influence they have on the final product.

Kluckhohn (1945) has proved the existence of three major problems that emerges from translation in social research: a) The influence of the interpreter on the informant b) the effect of the interpreter on the communicative process c) the effect of the interpreter on the overall translation. On this topic, Temple reveals that the researcher has to recognise his dependence on the translation not only for the meaning conveyed but also for the perspective adopted<sup>14</sup>.

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<sup>13</sup> Bogusia Temple has drawn on Liz Stanley's (STANLEY, 1990) concept of intellectual autobiography as an analytic concern with the grounded specificities of how researchers come to understand the social world—the intellectual construction of knowledge, in examining the influence of interpreters and translators on research (TEMPLE, 2006).

<sup>14</sup> The employment of community researchers, key workers, and bi-lingual workers in service development and research per se does not solve issues of representation but raises questions about how that person was chosen, whom they represent and how accountable they are (Temple, 2002).

## **1.4 Dealing with translation problem**

I will attempt to point out specific issues related to the operationalisation of the capability approach, encountered when I conducted cross-languages interviews in the State of Andhra Pradesh.

Scholars have reported many techniques to come across translation-related problems in social researches. There are three main methodologies to deal with translation issues: back translation, consultation and collaboration with other people involved in the translation process, for instance the possibility to realize pre-test or pilot whether it is possible.

Back translation is one of the most common ways to submit test in inter-cultural research; market surveys, sociological studies, medical forms, psychological examinations, informed consent forms, client-satisfaction assessment, pharmaceutical queries, research study protocols, and an endless list of other disciplines employ the benefits of this process as wherever the research demands an inter-cultural approach to the research.

The principal aim of back translation is to interpret one document in the most objective way; the procedure involves one translator or a group of translators external to the specific context of the survey, at best independent, impartial people without any previous knowledge of it.

Back translation is the process in which, once the document has been translated, is brought back to the original language. In my case, I conceived a set of questions in English and then I translated only the introductory information in Telugu with the help of the translator. It might be said that in the area I was not able to find a professional translator, so I asked to the local bishop if he knew someone that could work as a translator and he finally introduced the women who followed me through my stay in Khammam. About the back-translation, I first demanded to the translator to tell

me the spelling of each question and then I asked to people living in the Christian mission where I lodged<sup>15</sup> If they could confirm that key concepts and operational items were properly translated.<sup>16</sup>

Even If identification of semantic mistakes in the translation could be helpful, as Deutscher (Deutscher, 1968) remarks, Philips and Schrest instead refer to back translation as far from being the ideal solution but being eventually the source of other issues. For instance, back translation can be a very long process, and It can demand more than the one person, including external actors, in order to have considerable results (Philips, 1960; Srchrest et al., 1972; Broadfoot and Osborn, 1993).<sup>17</sup>

Another possible way to assess the pertinence of the translated questions is to compare It with source language untill the two versions matches and the discrepancy between them is minimized, cleared or deleted (Ercikan, 1998; Warwick and Osherson, 1973). Since the majority of women were illiterate, I could not hand out the questionnaire in a written form, but fact to face interview was the only solution. As a consequence, being impossible to verify the correctness of my questions simultaneously translated, I accorded a certain freedom to the oral form of the questions.

The limit my purpose was merely to verify that key concepts were not misinterpreted and secondly I could tell key words during the interview; this proved to both interviewee and translator that I was monitoring the accuracy of the process and my personal involvement to the interviewee, motivate them to not beat about the bush.

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<sup>15</sup>Missionaries are generally able to understand both English and Telugu and speak several languages because they have to move in different countries in their lifetime.

<sup>16</sup> "Back translation is the technique most commonly used to check the accuracy of translation in survey research. Although it results in a direct or literal translation, it does not address issues of conceptual equivalence. Furthermore, if it is not combined with pretesting, it does not address issues of comprehension and meaning to the respondent." (Douglas, Graig, 2007).

<sup>17</sup> See Phillips, H. P. (1960) *Problems of translation and meaning in field work*. in R. N. Adams and J. J. Preiss (eds) *Human Organisation Research: Field Relations and Techniques*. Homewood, ILL: Dorsey Press Inc

Moreover consultation with external people about the use and meaning of words and expressions identified as synonyms are problematic by people who are already bilingual (Whyte and Braun, 1968; Brislin et al., 1973) and could result in having endless discussion about irrelevant terms (Brislin et al., 1973).

Taking into account interviews, tests, or whatever tool used by the researcher, pilot test is important to have first approach to local culture and to the operational tool itself. I have realized five interviews, two group's interviews and 3 face-to-face, in order to establish the best methodology according to contextual limits.

When we introduce our research's tool, It is particular important to ask non only the answers but their free interpretations of the question I posed Warwick and Osherson (1973:33). After the creation of the questionnaire structure and interoperability proofs, statistical methods can eventually highlight translation problems. (Hambleton, 1993; Ercikan, 1998).

Once the interview's format finalized, I conducted the interviews in Telugu through one translator who could speak the relevant local language. The research would eventually be defined as a cross language research, because the data, although presented as primary, are used in a different language than the original.

## **1.5 Researching data on Microfinance**

### **1.5.1 Microfinance databases**

In order to analyse the Microfinance sector, I went through a number of databases regarding microfinance Institutions (MFIs) which however stands for a small subset of poor people's finance (Gonzales, Rosenberg, 2004)<sup>18</sup> ; among them, the databases with the highest participation's rate are:

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<sup>18</sup> It becomes significant if we think that "Like many other industries, microfinance tends to be concentrated. The median share of the largest MFI in a country is one third of the entire market. The median share is 81 percent for the

**The Microcredit Summit (MCS)** Database has information for 2,153 MFIs, serving about 90 million borrowers , It contains their number of poorest<sup>19</sup> and their profitability. Summary information is available online as well as the annual reports at [www.mixmarket.org](http://www.mixmarket.org). The rest of the contents is confidential and to access all the database you need to get a licence from MCS website administrator.

**The Mikro Banking Bulletin (MBB)**, is a MIX market<sup>20</sup> publication. It was published for the first time in 1997 and from 2010 on is available in online format on the website [www.mixmbb.org/en/index.html](http://www.mixmbb.org/en/index.html). The MBB data collection is made on a voluntary base: the institutions decide to provide their data to the Mix market, even if they have already quality controls or commission that perform their analysis, such as annual reports and policy notes in order to prove their accountability.

The offers detailed information on the financial and portfolio data, updated annually. The MBB analyses 346 Microfinance Institutes that have provided balance sheets in the last three months of the year. The indicators cover 19 millions borrowers, It contains the best information quality as concerns the length (number of active borrowers and savers) and the extension of the sample (from the

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top 5 MFIs, and 95 percent for the top ten. A similar concentration is visible when looking at the worldwide market, where 9 percent of the MFIs account for 75 percent of the borrowers.” A. Gonzalez and R. Rosenberg , *The State of Microfinance – Outreach, Profitability, and Poverty, Findings from a Database of 2300 Microfinance Institutions*, May 1, 2006.

<sup>19</sup> “Poorest” borrowers are defined as those who are among the lowest half of individuals below the national poverty line and/or living on a dollar or less per day. Profitability is measured as “operating self-sufficiency” (OSS) which is income divided by cash costs for a given period, with no standardization of loan loss provisioning and no adjustments to compensate for the effects of subsidies the MFI may be receiving. OSS is self-reported by the MFIs, unverified, and not reported publicly by MCS. Where possible, MCS does some independent verification of MFIs’ reported numbers of borrowers.

<sup>20</sup> Mix Market offers advanced analytical tools: some services are limited to the premium account, as building and monitoring MFI reports and portfolios, use powerful drill-downs, benchmarking, and aggregation tools. The Mix Markey provide information aboutnMFI and other microfinance actor profiles: Background information and important corporate documents, like audits, certifications and ratings. Moreover MFI reports provides financial, operational, and social performance results for over 2100 MFIs.

percentage of clients below the poverty line to percentage of clients who start a small business for the first time).

In 2004 Adrian Gonzalez and Richard Rosenberg tried to aggregate these three sources within a database conining about 2600 MFIs which represents 94 milion borrowers, and the findings are showed in the paper “The State of Microfinance – Outreach, Profitability, and Poverty” (Gonzales, Rosenberg, 2004)

The database is limited to Micro-finance Institutions defined as the mainly organizations employing recently developed techniques to provide tiny uncollateralized loans (Gonzales & Rosenberg, 2004).

It refers exclusively to borrowers and credit services, neglecting the saving services of the participating institution. They acknowledge the limited coverage of the data as well as the importance of thousands different type of financial institutions that include poor and low-income people among their clientele, including governmental agricultural and development Banks, saving and postal Banks, loan cooperatives and so on.

We should not neglect at this point, the role played by networks in creating shared knowledge, policy advocacy and rigorous researches for the MFIs operating in the same area.

In accordance to the Mix market, in India there are four networks created to improve the dissemination of knowledge about the quality of financial services<sup>21</sup>, although there are some new networks not mentioned in the list. For instance, in 2005 the Centre for Microfinance has been created in India: it is a Microfinance Network founded by relevant International partners like Gates Foundation, Ford Foundation, the World Bank and the London School of Economics<sup>22</sup>. The website contains a number of researches available with both qualitative and quantitative data, mainly

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<sup>21</sup> The four networks here mentioned are ACCESS development, AKMI, MFIN, SA-DHAM. Indian MFIs are also part of other trans-national networks, most of them based in the United States, like Grameen Foundation or ACCION.

<sup>22</sup> All complete list of funding partners is available at <http://www.ifmrlead.org/cmfi/about-us/funding-partners/>.

focused on four topics: financial Inclusion, livelihood, social objectives and policy/regulation of the sector.

### **1.5.2 Qualitative microfinancial data**

Looking back at the history of impact evaluation for microfinance institutions (MFIs), the monitoring activity was prevailing for financial services, instead of social impact evaluation. In the 1990s, monitoring a microfinance institution was essentially about tracking financial indicators; from the beginning of the Twenty-First Century, new studies have identified and set apart social dimensions from financial indicators.

James Copestake, Susan Johnson & Katie Wright, from the Institute of Development Study in Brighton in 2002 in UK, wrote a paper called “ *Impact Assessment of Microfinance: Towards a New Protocol for Collection and Analysis of Qualitative Data* ”. The paper was intended to innovate impact assesment through qualitative researches on microfinance. The scope was to develop a standard protocol for more rigorous qualitative impact assessment, suggesting that such a methodology would offer a 'third way', with distinct advantages over more established positivist and interpretive tools<sup>23</sup>.

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<sup>23</sup> “In particular, we argue the need for a clearer protocol for qualitative analysis based on the in-depth, semi-structured, narrative or long interview. “J. Copestake, S. Johnson & K. Wright (2001).

Figure 1. Methods to provide impact assessment information

	<b>Positivist methods</b>	<b>Rigorous qualitative methods</b>	<b>Participatory methods</b>
<b>Data collection method</b>	Sample survey using a closed questionnaire	Quota sample of semi-structured narrative interviews.	Case study focus group discussion and semistructured games
<b>Data analysis</b>	Interpretation of statistical tables and multiple regression analysis.	Systematic scoring of types of impact from interview notes and transcripts.	Verbal and experiential learning among participants. Interpretive reports
<b>Epistemology</b>	Rigorous statistical inference and peer review.	Rigorous qualitative analysis and peer review.	Process transparency and expert judgement.
<b>Potential strengths</b>	Rigour. Possibility of quantitative estimates of impact. More convincing to sceptical outsiders.	Richness in detail and understanding of differential impact. Ability to pick up unexpected and unmeasurable impact.	More timely and cost-effective, with potential for shorter feedback loops from suppliers to users of information. Can be positive learning tool for respondents too.
<b>Potential weaknesses</b>	High cost and time lags. Restricted to measurable impact indicators. Reveals little about causation. Difficult to counter selection Bias problems	Demonstrating that findings are representative of wider populations. Lack of clarity and consensus about how to achieve rigour.	Participants may hide important facts from peers as well as facilitators. Risk of response bias makes it hard to convince outsiders of the reliability of findings.

Source : CapeState, Jhonson and Write, 2002.

Afterwards, the Consultive Group to Assist the Poor (CGAP)<sup>24</sup> introduced relevant methodological innovation to the microfinance sector. In one document published by CGAP (Consultive group to assist the poor). Bridget Helms offered an overview of the microfinance sector by spleeting it into three sections: the *micro-level* composed by financial services providers, the *meso-level* made of financial infrastructures and the *macro-level* of governments (Helms, 2006).<sup>25</sup> The CGAP research analysed 750 milions financial activities, mainly savings and loans account. The accounts were concentrated in Asia, meaning that there was and presumably, there is a high geographical concentration, China and India accounting for 84 percent of the total. Meanwhile, there is a vertical concentration in the types of financial institutions because States represents three-quarters of all accounts. The study is interesting because it was the first to indicate the general characteristics of the Microfinance Sector for each region in the sample. Regarding Asia, the microfinance sector is characterised by a strong social orientation and emphasis on microfinance is concentrated in densely popolated rural area. The two main countries, China and India have a low rate of sustainability in compairison with the relative population size and the reason mentioned is the extensive historic government involvement in the financial sector (Helms, 2006)<sup>26</sup>.

Christen and others (2006) offered an accurate compilation of data taken by financial services providers; they tried to extimate the financial service penetration, mentioning the number of Bank accounts and active loans in 148 countries. Concentrated on Institutes of alternative finance, the analysis provided an overview on the financial services for low-income clients.

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<sup>24</sup> CGAP is a banner for the work of the world's latgest aid agencies.

<sup>25</sup> See "cost allocation for multi-service micro-finance institutions" Brigit S. Helms, CGAP SECRETARIAT.

<sup>26</sup> Helms, Birgit, 2008, "Banking the bottom of the pyramid: From Microfinance to Inclusive Finance and beyond", 23 January 2008, presentation for APEC Workshop, Jakarta (available on: <http://www.aba.org.tw/images/upload/files/BrigitHelms08I.pdf>, last accessed 04.02.2015)

One of the main controversial methodological issue was to establish whether count numbers is equal to count clients<sup>27</sup>. Peaches e Roe for instance to estimate financial access firstly looked at how much money there is in an economy and how this splitted between cash and deposits; secondly, they identified the number of accounts at accessible institutions specifically targeting their services at the mass market and penetrating beyond those customers typically served by commercial Banks.

## **1.6 Impact evaluation: selection bias and causal effect**

### **1.6.1 The counterfactual analysis**

The best method to assess complex causal relationships is to manipulate variables in a laboratory and to verify the effects. A wide set of disciplines employed the empirical method, from medicine to physics, meanwhile some the majority of economic researches, although being “scientific”, remained precluded by reproducing phenomena in the laboratory. For programme impact assessment, recently Economists too took advantage of the skills and resources available from the experimental approach; in some cases, economists adopted randomized control trial (RCT) with surprising results, especially for Economic evaluation alongside clinical trials.<sup>28</sup>

The main problem for the economists when assessing RCT is the absence of counterfactual; it means to establish what would have occurred in absence of the treatment. For what concerns my research on a microcredit program, the problem was to establish casual relationships between the individual participation and all other economic indicators as saving, purchasing power and amount of loans. The counterfactual would have been identified with the random selection of women

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<sup>27</sup> Referring to financial access, Peaches and Roe estimated three relevant limits to financial inclusion analysis. *(a) data on numbers of people accessing personal financial services may often not even be known within Banks and other institutions supplying the services; (b) regulators (until very recently) have not been interested in retail transaction volumes, concentrating instead on data relating to balance sheet stability and (c) identification of SME activity is very poor and even worse for micro-enterprises.* (Peachey and Roe, 2006).

<sup>28</sup> The Health Economics Research Centre of Oxford University, for instance, uses RCT for the measurement and evaluation of health outcomes.

external to the program but whether this would change the other basic indicators or not is difficult to estimate.

One could evaluate the average effect of microcredit program by comparing two groups of individuals, one with access to microcredit (the treated sample) and one excluded (the control sample). Systematically, problems would occur, because usually individuals exposed to the treatment differ significantly from the excluded ones: selection bias is the so-called phenomenon responsible for unequal clients' selection.<sup>29</sup>

It is clear that the main problem for the researcher is to establish a model for individual behaviour without the treatment. In my survey, some questions assess the impact of the program by asking If their daily lives have changed after the program. Nevertheless, the simple comparison of the initial situation with the situation after the treatment does not provide necessarily any precise indication of the way in which microcredit works because many other factors may have jointly occurred.

Dean Karlan in 2001 defined *selection bias* as the problem of attributing causation to a program with voluntary selection (Karlan, 2001). The problem becomes relevant in microcredit because those who participate in microfinance programs are more entrepreneurial in spirit, more resourceful in business, and hence more likely to overcome life's problems one way or another (Karlan, 2001). Attributing their success to microfinance or estimating to which degree refer its contribution then becomes difficult. *Selection Bias* is not observable and the simple comparison between results of the two groups does not acquire a specific meaning to evaluate microcredit impact.

### **1.6.2 Matching and difference-in-difference**

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<sup>29</sup> In medicine, *selection bias* represents systematic differences between comparison groups in prognosis or responsiveness to treatment.

From the statistical point of view, several techniques take into account selection bias and related problems are able to provide reliable estimates of the treatment effects. In any case, even more or less complex statistical technique does not solve completely the problem of selection bias.

Among the matching technique, one option is the creation of two groups on observable and measurable characteristics: the goal of matching is to find one non-treated unit(s) with similar characteristics -for instance, age, sex and schooling-to the individual who is subjected to the treatment.

According to matching technique, one micro-finance impact study conducted in 2009 in Meghalaya, Northeast India. A.P. Pati and B.F. Lyngdon used Propensity Score Matching (PSM)<sup>30</sup> to analyse Microfinance Intervention and Socio-economic Transformation. The so-defined PSM is a contemporary technique used for impact assessment; in particular, PSM prioritizes microfinance intervention on socio-economic transformation in comparison to other interventions (Pati, Lyngdon 2009). PSM provides indication to the probability that individual would be in the experimental or control group; this is at the same time the probability of receiving treatment given the covariates (Love, 2003; Deininger and Liu, 2009). From the comparison between average performances of the two groups, they estimate the social impact of the treatment. The most important limit of this approach is the distortion due to individual ability that is not observable even if selection bias is measurable by the researcher.

Another approach widely used is the so-called difference-in-differences: in this case, the researcher disposes of information about before and after treatment variables of both treated and non-treated groups. By comparing the family income before and after the treatment the researcher can delete the effect of non-observed variables, as talent and individual ability, but does not solve completely the

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<sup>30</sup> The propensity score is a logistic regression with a dichotomous dependent variable assuming the value of "1" if the individual is in the experimental group and "0" if the individual is in the control group. Logistic regression determines the extent to which the covariates can predict whether an individual is in one group or the other, and provides an indication of the degree to which the groups are unbalanced on these covariates. It further provides a summary of the accuracy of the overall prediction based on the model. Hence, logistic regression is used to estimate the probability that individual would be in the experimental or control group.(Pati, Lyngdon, 2009).

problem, because during the treatment, other factors, mainly political, could have changed (recession, implementation of public policies to help the poor) with influence on individual income.

Consequently, the joint consideration of control sample and the information of two different periods became essential to estimate microcredit impact, once established the relationship between differences in before-after treatments in the sample and in the control groups. Some social variables as literacy level or malnutrition that have varied in the examined period have influenced the program results in terms of income generating activities.

### **1.6.3 Quasi-experimental study**

One approach nearer to scientific experimental techniques is the quasi-experimental studies: in this case, the focus is in particular selection criteria for participants, which determine the exogenous selection. Quasi-experiment is an empirical study used to estimate the causal impact of an intervention on its determined population. In comparison with randomized control trials, they specifically lack the element of random assignment to treatment or control. The experiment need to find a quasi-independent variable, the so-called x-variable that is manipulated in order to affect a dependent variable.

In the microcredit domain, a well-respected study about the impact of Grameen Bank in Bangladesh realised by Shahidur Khandor of the World Bank. In his research he opted for the selection criteria of half hectare of land in Grameen program to solve selection bias. Most important, he showed a strong positive result on income from the microlending activity. Quasi-experimental study had certainly been subject to criticism, partly because of the beneficiaries' possibilities to manipulate the variables assumed as selection criteria. This was the reason why Roodman and Murdcuh have revisited the study in 2009. Mark Pitt and Shahidur Khandor's study their reproduced then the

previous research on Grameen Bank in Bangladesh <sup>31</sup>(Pitt & Khander, 1998). Brett Coleman of the Asian Development Bank realised a study in 2006 where he showed that the service reached merely relatively wealthy borrowers, not the original target of “the poorest of the poor”.

Toshio Kondo (2007) of the Asian Development Bank uses Coleman’s methodology to study a microfinance program in the Philippines addressed to the 30 percent of the rural population in the Philippines. Kondo found out that the positive effects related to the program (increases in per capita incomes, expenditures and formal saving) occurred only to relatively wealthy borrowers.

#### **1.6.4 Randomised Control trials**

In the two-year period 2006-2008 in India, Philippines and Morocco randomized controlled trial (RCTs) applied to microcredit programs impact evaluations; some researchers designated the intervention to a casual treatment group compared to a random control group.

Already applied in medical trials, especially drug trials, RCT is now growing in popularity among field researches in social sciences. Academics and specialists in other disciplines such as education, health, governante, finance and the private sector began to use this tool to assess social and economic impact in their domains. The experimental approach diminishes the arbitracry level of the researcher; thanks to its semplicity, is improving Economic reseach on development and International aid.

One of the most striking examples of random evaluation is the program PROGRESA (now called Oportunidades), which is financially supported by Mexican government, in order to estimate the effectiveness of conditional subsidies. The targeted components included health, nutrition and

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<sup>31</sup> Pitt, Mark M., and Khander, Shahidur. “Household and Intrahousehold Impacts of the Grameen Bank and Similar Targeted Credit Programs in Bangladesh” Manuscript. Providence, R.I:Brown Univ., Dept. Econ., March 1995.

education. More specifically, the government has been financing the education fees only after the verification of children attendancy and medical examinations proofs.

The success of PROGRESA programme in Mexico -which celebrates in 2014 the 13<sup>th</sup> anniversary of its activity- has increased school enrolment<sup>32</sup> over the years and its success has not been affected by changes occurred in the political scene affirming its validity over different governments. The random study proved that students involved in PROGRESA program entered school at earlier ages; they experienced less grade repetition and better progression.

Most notably, the evidence of PROGRESA results at increasing school enrollments spurred many countries to emulate it, particularly across Latin America. In Brasil for instance, PROGRESA model has inspired the Bolsa Familia program. Bolsa Familia has the same objectives and uses the same model of the Mexican PROGRESA: poor families receives cash transfer in return for keeping children in school and attending preventive healthcare visit.<sup>33</sup> Bolsa Familia is a reference point for social policies around the world. Qualitative studies highlighted how the program have promoted the dignity and autonomy of the poor; Bolsa Familia is also a reference point for gender equality, since women account for over 90 % of the beneficiaries. Apart from the immediate result in poverty reduction, BF increased the opportunities to break the transmission of poverty from parents to children. In one decade of activity, BF offered financial support to 13.8 milions poor households and contributed to the effective poverty reduction during Luis Lula da Silva mandate<sup>34</sup>.

Even If Brazil still struggles to create real alternatives of income generating activities and decent employment for all citizens, Bolsa-Família is one of the largest existing instruments of conditional cash transfer: approximately one in four Brazilians receives the benefit , there is an astonishing high

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<sup>32</sup> See Behrman, J., P. Sengupta, and P. Todd. 2000. The Impact of PROGRESA on Achievement Test Scores in the First Year. September. International Food Policy Research Institute, Washington, D.C.

<sup>33</sup> Deborah Wetzel, *Bolsa Família: Brazil's Quiet Revolution*, Valor Econômico, November 4, 2013

<sup>34</sup> Lula de Silva was the 35th president of Brasil; his mandate was from 1 January 2003 to 1 January 2011.

number of beneficiaries, being the total population about 198 million people. Considering the scope of the programme, it has a major impact on the Brazilian economy and on people's lives.

The economic and social impact of a public policy by a series of measurable output is particularly useful for donors and International Organisation, increasingly committed to their policy evaluation. Next to the public sector, in developing countries ONG and the private sector are playing an increasing role in promoting less costly and more innovative evaluation methods than the governmental ones, also in part for their flexibility in adaptation to the researchers' demands.

Jessica Cohen and William Easterly in "What Works in Development? Thinking big and thinking small"<sup>35</sup>, the great success of experimental method in many fields is transforming the development economy, feeding the debate among supporters and critics (Cohen & Eastery, 2009). At any level, as Abhijit Banerjee suggested, there should be no amount of money invested for social intervention without a casual experiment, wherever is possible<sup>36</sup>.

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<sup>35</sup> Jessica Cohen and William Easterly in "What Works in Development? Thinking big and thinking small", 2009, Brooking Institution Press.

<sup>36</sup> A. Banerjee, E. Duflo R. Glennester, and C. Kinnan "The miracle of microfinance? Evidence from a randomized evaluation", MIT press, March 2014.

## 2. MICROFINANCE: FROM TRADITIONAL TO MODERN MODELS

*“Once poverty is gone, we'll need to build museums to display its horrors to future generations. They'll wonder why poverty continued so long in human society - how a few people could live in luxury while billions dwelt in misery, deprivation and despair.”*

— *Muhammad Yunus, Creating a World without Poverty: Social Business and the Future of Capitalism*

### 2.1 The premises of microfinance

We will try in this chapter to trace back the origins of microlending activities and to give a basic definition of microfinance. This is quite difficult because the same term encloses many meanings, some of which referring to very ancient practises of social aid and economic support to the poor. I decide to begin then the historical reconstruction of microfinance sector with the definition provided by Yunus. Yunus himself defined microcredit as the loan granted to "poorest among the poor" (Yunus, 1997), referring to those people who live on less than \$ 1 a day, by allowing them to develop forms of self-employment.

With regard to microcredit, Professor Yunus in the seventies conceived first, in his academic experiments, the definition of modern microcredit. The innovation of Mohammed Yunus was to make “popular” lending money to the poor as a possible and sustainable service provided by financial institution. After his experience in Bangladesh, the entire developing world try to emulate the Grameen model; for this reason, he is estimated as the “inventor” of microcredit

From the Yunus basic definition we notice that the central microcredit target, assumed as a direct consequence of being socially excluded, consists of people who never joined the traditional channels of credit, the so-called “unBanked”. However, geographers first coined the term financial inclusion in 1993; they were concerned about Bank branch closures and the resulting limited physical access to Banking services. This idea grew but it was not until around 1998 that the term was first used in a broader sense to describe people who have limited access to mainstream financial services.

Infact the creation of Grameen Bank in Bangladesh in 1976 may be considered the founding act of modern microfinance even If, historically, other societies have considered different methodologies to fight against social exclusion. For instance, financial systems relying on solidarity existed long before; in the next paragraphs, I will try to give an overview of the first social policies in favor of the poorest developed in European countries.

## **2.2 Embryonic experiences of microfinance**

The ancient practice of lending money to the poor brings us back to the initiative *Montes Pietatis*, promoted by Pope Leo X and his Statement that “lending to the poor is an act of mercy”; these groups asked only the nominal collateral from their borrowers; as opposed to those we could today call loanshark (Thurman and Smith, 2007).

In the early 17th century, Sir Jonathan Swift, Irish nationalist and author of Gulliver's travels, collected £500 fund to lend to “poor industrious tradesmen”; he directed the “Irish Loan Fund System” in which urban and rural poor people of Ireland could lend money without the provision of collaterals.

The organisation acquired its sustainability by charging reasonable interest rate with small and frequent repayments rate. Meanwhil the Irish Loan Fund System granted small advance (5 to 10 pounds) to repay in weekly installments. In order to solve the problem of possible non-repayment, borrowers had to provide two neighbors name as guarantor of the loan, both of whom would be advised in case of late-payments. Whever there was a default case, Swift led all three of them to court. Surely this strategy succeded because Swift declared not to have suffered any losses from this enterprise (Hollis & Sweetman, 2001).

### **2.2.1 Raifessen model**

Other model of microfinance emerged over the time. Timothy Guinnane, an economical historian at Yale University studied Raifessen and village Bank movement in Germany in the first half of Twenty-First Century considering the model near to modern definitions of microfinance. In 1849 F.W. Raifessen, established in Rhineland the first saving and credit cooperative society<sup>37</sup> or self-help cooperative, one institution that offered saving services to labour class and unBanked.

He remarkably provided evidence of two specific characteristics related to modern microfinance:

1) People payback moral and 2) the already existing concern of lending money to the poor as a viable and sustainable practice. His experience as young mayor of Flammersfel shaped his attitude towards the poor; in his city, poor usually lended money from local moneylenders for basic needs. Touched from the poverty he experienced for his public role, in 1864 he found the first rural credit union.<sup>38</sup>

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<sup>37</sup> The original name in 1846/47 was Verein für Selbstbeschaffung von Brod und Früchten" (Association for DIY-procurement of Bread and Fruits).

<sup>38</sup> Information are taken International Raiffeisen Union website, dedicated to promoting the life, work and ideals of Herr Raiffeisen and his cooperative movement's ideals.

Raiffeisen showed that there was a consequential link between dependency and poverty. In order to stimulate the desire of independence among poor people, Raiffessen thought that poor people would achieve their goals without external help or State subsidies, cutting down charity, as well as public help and moneylenders. He conceived a specific formula to fight poverty, based on the three S principle: self-help, self-governance and self-responsibility<sup>39</sup>. From the three S principle emerges the western individualistic model of microfinance. In a horizontal comparison, we will see now this feature as a relevant difference with developing countries, where microfinance is based on shared responsibility.

### **2.2.2 Self-determination and microfinance**

Microfinance has existed in various forms for centuries, and even longer in Asia, where informal lending and borrowing have a long history. Especially in India, where SHG Banking boosted trade and Banking through this rural financial innovation.

Saving and credit groups have worked for centuries, like the “susus” of Ghana, “chit found” in India, “tandas” in Mexico, “arisan” in Indonesia, “cheetu” in Sri-Lanka, “tontines” in West Africa and “pasanaku” in Bolivia, apart from the examples of solidarity lending we can find all over the world. Those organisations have in common the fact that they mutualise savings inside the organisation to lend money to members. Historically many institutions developed on this basis in Europe and in Northern America; later, from 1950 some mutualistic institution were built in Southern countries, mostly in Africa. In the 60s and the 70s, after the independence, the Government of many developing countries addressed their attention on financial inclusion, especially after the beginning of modern globalisation<sup>40</sup>.

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<sup>39</sup> Originally in German: Selbsthilfe, Selbstverwaltung and Selbstverantwortun.

<sup>40</sup> Following the theory of O'Rourke and Williamson the first globalisation began after 1750, because of the increases in global market convergence occurred when transport costs dropped. See The Economist, “When did globalisation start?”, Sep 23rd 2013, C.R, London.

From the 70s, public agricultural Bank in developing countries provided financial help to agricultural activities, with an interest rate subsidized by the State. In India for instance, in the 80s was established the National Bank for Agriculture and Rural Development(NABARD) on the work of Shivaraman Committee, after the National Bank for Agriculture and Rural Development Act 1981. It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It is still one of the premier agencies to provide credit in rural areas.

However, the mutualistic experience suffered from three major problems: 1) political and electoral pressure influenced the management of the institution, the loans had a 2) low reimbursement rate and 3) the interest rate was too low for the financial institution sustainability. After some years, most of the agricultural/development Banks disappeared and the problem of financial excluded remained unsolved until the rise of modern microfinance.

### **2.2.3 Comilla's failure**

Modern microfinance benefit also from first failures in public policies conceived for poverty alleviation. The Comilla model was one of the remarkable failure that the sector faced at the beginning of its history. Akhter Hameed Khan, who was in charge of developing and launching the programme for the financial inclusion of the poor in the framework of Pakistan Academy for Rural Development, build up the Comilla model in second half of the XX<sup>th</sup> century. Comilla model developed a series of cooperatives managed by poor people in 1959, but soon faced troubles due to the absence of a strong regulatory framework for the cooperatives; Dr Khan affirmed:

*“... In actual practice, the four programs suffered from distortion, mismanagement, corruption and subversion. After Independence of Bangladesh, while the First Five Year Plan gave general endorsement, both theoretical criticisms and practical difficulties became more severe.”<sup>41</sup>*

After the Bangladesh independence, in 1971, there was an escalation of loan defaults, also because the new government annulled loans delivered under its pre-independence predecessor. Chowdhury associated the default escalation to fraud, stagnation, diversion of funds and ineffective external supervision (Chowdhury, 2009)<sup>42</sup>. She reports that by 1979, only 61 of the 400 cooperatives were still functioning. Dr Khan assumed that It was due to powerful local people at management position and lack of knowledge, because local people were “unaware of their rights” . The project ended in a complete failure and by 1979, only 61 of the 400 cooperatives were still active.

## **2.3 Methodologies for Microfinance**

The vast majority of MFIs grants loans is based on solidarity group loans without collateral. There are also varieties of other models that MFIs employ. Some MFIs start with a methodology and then changes, most usually to expand the market and increase the social target on the entire area. It is necessary to have a basic understanding of microfinance methodologies to highlight some of the issues related to the field experience of microfinance in India.

### **2.3.2 Group loans**

One of the typical feature of microfinance in developing country is group lending. Group loans constitute an original free-collateral lending practice. Microfinance Institutions (MFIs) in the legal form of NGO, played a relevant role in the development of modern microfinance. MFIs lend small sums of money to many client (members of Self-Help-Groups) under peer control ratio. Self help

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<sup>41</sup> The Works of Akhter Hameed Khan. Volume II, pp. 190-91

<sup>42</sup> A. Chowdhury, *Let Grassroots Speak*, p. 54.

groups show similar pattern in the developing world, as far as concerns group size, selection criteria and alternative forms of collateral.

Groups' size varies, but the majority has four to eight members. The group is in charge to select its members before obtaining a loan. Loans distribution acts in a progressive way: initially for one or more selected members of the group until all the members receive the first advance of the loan. Most MFIs require part of the loan repaid in advance, in order to assess the ability to make repayments regular. This constitutes itself an alternative form of collateral; group members are jointly responsible for loans repayment and usually they meet weekly to collect repayments. In case one member defaults, the entire group will not be entitled to receive fresh loans. It is for this reason that the borrower reliability lay in group members rather than MFIs.

#### **2.3.4 Individual loans**

Self-help groups are then typical of microfinance activities in developing world while individual loans are prevalent in the developed world, despite some notable exceptions. The main difference between a personal loan and other forms of credit given by commercial Bank is that the source of repayment for personal loans is mainly from salary of the borrower. Any form of debt whose source of repayment does not come from the asset purchased but from wages or salary of the individual borrower which is called a personal loan.

Only a small number of conventional financial institutions (eg Banks) provides individual loans to low incomes households. This is simply because poorer clients are considered high risky: they lack traditional forms of collaterals, they demand more administrative costs and most relevant for financial institutions, small loans lacks of profitability. Nevertheless, Bank Rakyat Indonesia (BRI) and Association for the Development of Enterprises (ADEMI) in the Dominican Republic are examples of credit institutions, intended for very poor clients, having successful results. However, the BRI is among the few organizations to require material collateral because It is financially self-

sufficient. It was not conceived at the beginning as an organization of social services and it did not provide training or customer support. ADEMI's philosophy as well as businesslike or for profit; credit advisors were selected amongst well educated people of the barrios, who were in charge of investigating on customer reliability<sup>43</sup>.

The Barclays Bank in Kenya, at the beginning of its activity, had a specific line of credit for its clients because the Women's World Banking (WWB)<sup>44</sup> acted as a guarantor for them. But when Bank agencies and small branches began to not grant individual loans because of the resistance of some managers, Barclays demanded additional forms of collateral. The Barclays considered then, the possibility of replacing the WWB guarantee by an insurance policy (Binns, 1998). Unsecured personal loans were mostly granted to people with evidence of a regular income by availing three month's consecutive pay slip. In Kenya, for instance, most consumers of personal loans are teachers who access them from commercial Banks all over the country. Of late, microfinance institutions were granting personal loans due to the high interest charged on them and profits associated with economies of scale by lending to a large pool of borrowers

### **2.3.5 Credit unions**

Credit unions are grassroots organizations that operate as savings and/or credit cooperatives, as a logical financial company (Poyo, 1995; Adams, 1995). They collect savings and provide short-term loans. The demand for loans typically exceeds savings deposits so that loans to members are usually

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<sup>43</sup> "The screening mechanism for individual loan relied on a few key principles : first, ADEMI employed well educated credit advisors who had themselves grown up in the barrios or low-income neighbourhoods that ADEMI was serving; secondly credit advisors asked members of the community about potential clients in the same way that an informal moneylender might: Was the person viewed as reliable? Did he or she have a drinking problem or family problems that might impair his/her ability to repay? How long had the person been in business and what did clients think of the person's product or services? Third, ADEMI offered each borrower only a small initial loan, with a promise of a larger one upon timely repayment. Fourth, ADEMI built up a reputation of charging positive real interest rates and of enforcing loans, so that only serious candidates need apply." ( Benjamin e Ledgerwood, 1999).

<sup>44</sup> Women's World Banking is the global non-profit organisation created to give credit access to low-income. The WWB provides financial tools and resources women require to build security and prosperity. For more than 35 years they have worked with financial institutions to show them the benefit of investing in women as customers, and as leaders.

limited and fixed based on their savings. In many rural areas, credit unions remain the only sources of savings and credit services that exist outside of the informal financial market. Given that credit unions attempt to reach simultaneously social and commercial objectives, they can play a vital role in providing financial services for the poor.

As has been observed in West Africa (PARMEC<sup>45</sup>), Madagascar (CECAM<sup>46</sup>), Haiti (Caisses Populaires) and Central America (Communal Banks), credit unions reach, as a rule, financial autonomy over a decade. According to the Council Global credit unions (WOCCU) in the late 80s, there were about 17,000 mutual credit in 67 low-income countries, with almost 9 million members, 60% distributed in Africa and in the Caribbean. These credit unions managed about 2 billion dollars deposit and capital stock and an estimated \$300 million were distributed in small loans to 1 and a half million small business (Adams, 1995).

### **2.3.6 Village Banking**

*Village Banking* is a financial services model administered at a local stage instead of the conventional figure of a centralized formal Bank. It enables poor communities to create self-help groups of 20-30 members, mostly females who are severely poor, the majority of which has not really benefited from credit unions because that the required level of savings was too high.<sup>47</sup>

The model developed from the experience of FINCA (Fundación Integral Campesina) in Costa Rica in 1984<sup>48</sup>. During the 80s, village Banks have developed in Bolivia as an alternative to rural credit. Every credit office manages a village Bank project and attends weekly meeting to motivate members and promote adult education. Among his main tasks, the credit officer (CO) monitors

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<sup>45</sup> Project to support the regulation of savings and credit

<sup>46</sup> Promotion Project Savings and Mutual Agricultural Credit.

<sup>47</sup> This figure represents families with a daily per-capita expenditure (DPCE) of less than US\$1.

<sup>48</sup> FINCA International is currently active in many parts of the world.

client attendance and saving collection. Moreover, each village Bank decide through a democratic decision-making process one elected officer, a secretary and a treasurer.

Village Banks submits the recorded balance and loan payments through a double check process, because both the village Banker and the treasurer monitor balance of loan payments and saving deposit.

These NGOs' credit relies on a system of cross-guarantees<sup>49</sup> because each member of the group ensures the loan of every other member. Savings promote solidarity through social investment. The sponsor agency deliver a group loan and the group shall assign in turn individual loans to their members. The village Bank estimates that the cost of social embarrassment guarantees these loans and put some psicological pressures on mutual support among members; the above considerations are ment to ensure the repayments.

Clients generally refund credit in a period from four to six months, which generally means sixteen weekly installments<sup>50</sup>. Borrowers start with a very small loan and then progressively higher, untill they reach to a pre-set credit limit. Village Banks, like many other microfinancial istitutions, link credit to savings and in the majority of cases, the loan amount reflects the amount of money that each borrower saved; it means that the more a client saves the more she can borrow. Village Bank holds members' savings; the Bank disbourses the total amount for new loans, new investments, or further increase of Bank's deposit. About interest rates and fees, village Banks apply commercial standards.

In late 1994, there were 3499 village Banks with 90,754 members worldwide. According to UNIFEM, in 1996, 90% of their members were women. In Asia, 6678 members of 172 unions are

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<sup>49</sup> Members are supposed to be enrolled in a village Bank without material guarantees

<sup>50</sup> See "A Brief Primer on FINCA", a lecture by John Hatch at the University of Berkeley's Haas School of Business, July 21, 2004"

women (Nelson et al., 1996)<sup>51</sup>. In rural areas, the village Banks encountered more difficulties in establishing a relationship of trust and solidarity and, for reasons that have not yet been analysed, suffered a large number of members' dropouts. Low literacy level have resulted in preventing the formation of hierarchical structures: all members the same level of control over the organizations (Nelson et al., 1996).

### **2.3.7 Rotating credit and saving association**

Rotating Savings and Credit Associations (ROSCAs) exist in many parts of the world with different names, from *Tontines* to *Susus* (Bouman, 1995). ROSCAs stands for informal savings organisation, often dominated by women who are head of the households: they save small amounts of money and afterwards borrow from the common pot on a rotating principle.

MFIs have sometimes used ROSCAs as well as other saving groups already constituted for solidarity lending. ROSCAs are widely used in West Africa. In Senegal as well, they allow members to save very small amounts of money, at a predetermined rate in order to obtain interest-free loans (Balkenhol and Gueye, 1995).

The loan amount varies considerably because of the rotating system itself, since different levels of allocations of funds applies to group members. In Dakar and other urban Senegal, some *tontine* had originated from women's groups<sup>52</sup>. ROSCAs are also more common in some 'castes' of Senegalese society than others are. There is "Nienio", a caste of artisans composed of jewelers, blacksmiths, weavers and shoes manufacturers who used extensively the mutual guarantee system of *tontine*.

Two original types of *tontine* spread in the two main Muslim communities of Senegal, *Tidianes* and *Mouride*. There *tontine* (*adji maka*) among *Tidianes* functions as savings discipline for the

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<sup>51</sup> See Nelson, Candace; Barbara MKNelly, Kathleen 1612 Journal of Economic Literature, Vol. XXXVII (December 1999)

<sup>52</sup> Bouman (1992) reports S.Steiner's research on female *tontines* in Douala, Cameroon, who affirms confirm the important role of women in urban *tontines* p.6.

pilgrimage to Mecca. In the Mouride instead the *tontine* serves as mutual help association, called "dahira" which assists member in financial difficulties, for instance theft, trials, diseases and fires (Balkenhol and Gueye, 1995).

In Dakar, tontines gradually became very important to finance short-term trading and service activities. In Senegal, tontine is the main form of informal savings organizations and the sums involved are substantial (Balkenhol and Gueye, 1995).

## 2.4 The pioneers of modern microfinance

We have seen that microfinance stems from the ascertainment of connection between social and financial inclusion. In the 70s, and more specifically, the second half of the decade, the first experiences of “modern microfinance” appeared in Latin America and in Asia. From 1975, the example of Grameen Bank in Bangladesh drove the minds to a renewed focus on lending money to the poor. The postulates of microfinance functioning were quite simple:

1. The access to basic financial services (savings and credit mainly) are essential. This means that exclusion from these services for one person is a restriction to the development and autonomy.
2. The capacity to undertake economic activities is definitely more developed than we can imagine.
3. In contrast to common assumption, poor can save money, borrow and reimburse loans. They are able to manage their money on a daily basis. They refund better than rich people, If provided with the right form of credit and alternative forms of collaterals.

Grameen Bank showed that not only the poor can effectively manage and reimburse credit, but also they are able to pay high-interest rate. Thus, the financial institution can be sustainable, covering all its costs without private or public subsidies.

Based on the successful experience of Grameen Bank, specific credit methodologies were forged, suitable for one population that neither commercial Bank, neither rural/agricultural Bank had involved in a durable way.

Above all it is important to emphasize that financial balance was not a priority outreach for a microfinance programs: at that time It seemed still difficult to imagine one MFI (Microfinance Institution) living without major public funders (as government of donors countries, International financial institutions) or private funders (like private foundations).

At the end of the 80s, the initiatives multiplied and as a result, the sector becomes less confidential.

In 1992, PRODEM, an NGO created in 1986, adopted the policy of creating a branch in the legal form of Bank for microcredit activities. The new Bank, named Banco Solidario SA (BancoSol), constituted only the beginning of the microfinance industry in Latin America. In such countries, the BancoSol model inspired institutions attached to urban credit which began to cover their costs without subsidies.

## **2.4 A period of rapid change (1992-2000)**

The last decade of the Nineteenth-Century was a period a great change for microfinance sector<sup>53</sup>. BancoSol model was the basis for a deep change in the industry. The financial viability, meaning the capacity to cover operating and financial costs with its own revenue, became the primary issue of microfinance program. BancoSol has a very original history because It is the most know example of a NGO becoming a financial institution in the legal form of a Bank.

### **2.4.1 The success of BancoSol model**

Bolivia, independent from Spain in 1825, is one of the poorest countries in the world. In the 80s' next to traditional agriculture products, the expansion of the illegal market of cocaine increased with the resulting growth in drug trafficking and delinquency level.

Following a disastrous economic crisis during the early 1980s, the liberalisation of prices was the reason of an impressive Bolivian currency devaluation. Consequently to the closure of mines, thousand of people before employed in the mines, moved to cities and found an employment in the informal sector. Today 66.8% of total population live in cities while GDP per capita in 2013 is

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<sup>53</sup> The term "microfinance" has become commonplace in the early 90s, as evolution the former concept of microcredit, including both the aspect of the administration of insurance products to the collection of savings in financial intermediation for poor.

around \$5,500. The 1990s reforms spurred private investment, stimulated economic growth, and cut poverty rates.

In 1992 Banco Solidario (BancoSol) open Its door to public. When BancoSol was established, PRODEM transferred a loan portfolio of US \$ 3,960,000, with about 143000, some real eStates from its network o furba branches, and a PL480 loan for US\$850,000 at eight percent per year (Agafonoff, 1994).

BancoSol inherited from PRODEM a wide real estate property which enabled BancoSol to start with solid basis. Although BancoSol's clients are very poor, they have to fullfil the condition of one year established business, before applying. Although BancoSol clients are very poor they are not among the poorest of Bolivians. However, the most of BancoSol clients had low chance to gain access to conventional formal financial institution. About 78 percent of BancoSol borrowers are women.

Now BancoSol offers a dozen of different financial services, amongst them "Sol Grow", which is a loan designed for entrepreneurs constituted as individuals. It goes from USD 50 to USD 2,000 or its equivalent in bolivianos. Another interesting product is "DPF" which is a credit to finance all kinds of immediate needs, the collateral is the constitution of a found with a fixed term (DPF) of BancoSol. The product Sol DPF is designed for Micro, small and medium businesses and self-employed people. For microentrepreneur BancoSol has "Solidario" which is a type of solidarity lending delivered to tofinance individual business or in groups of 3-4 people in joint responsabili ; the amounts not exceeding USD 2,000. USD 6.000.- per customer or per solidarity group.

BancoSol's success was determined firstly by the creation of its leaders in a process of formalization; secondly the development of a lending technology for its market niche, and lastly the fruitful investment in experimentation and learning during the PRODEM period.

Finally, under the influence of BancoSol model, many MFI adopted the strategy to standardise their products and to rapidly increase their customer base. BancoSol launched the widening action in order to realise and exploit economy of scales. The sector attention of this period seemed to be not brought in priority on products and clients but on the institution itself. The unquestionable commercial succes of MFIs was often considered one sufficient proof that their work was an aswer to people's need.

#### **2.4.2 Media recognition and influence of private capital**

In the late 90s the microfinance sector experienced the first difficulties. The rapid growth of the institutions, motivated by financial sustainability, led to disastrous losses in the reimbursement rate. The fragility of Microfinance Institution and the need to reinforce them appeared clear. The main reason was that MFIs took customer satisfaction for granted; MFIs had to recognise that their clients required *personal* follow-up and financial support. So that, MFIs willing to recover their personal relationship with clients, purchased up-to-date-tools in order to analyse customers numerous needs. The product proposed needed a specific target and the offer was diversified to fullfil clients' requirements. New products entered the microfinance services market: transmission of funds, micro-insurance, mortgage loans.

However, the scope of using microfinance became enormously vague even when a strong interest towards the sector was raised in the nineties, especially after the United Nations (UN) resolution 53/197 of 15 December 1998, which has announced the 2005 as the "International Year of Microcredit", followed by the Microcredit Summit held in Washington between 2 and 4 February 1997<sup>54</sup>.

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<sup>54</sup> "The UN General Assembly designated the year 2005 as the International Year of Microcredit (resolution 53/197) stating that the Year will be an important opportunity to give impetus to microfinance programmes throughout the world." Quote from the official website: [yearofmicrocredit.org](http://yearofmicrocredit.org)

Thus, in 2005, the Economic and Social Council of the United Nations proclaimed the International year of Microcredit in a call aimed at “fuelling” the entrepreneurial spirit of poor people around the world. The official purposes of the year were the assessment and the promotion of microfinance, the growth of microfinance visibility for public awareness, the promotion of a more inclusive finance, the creation of a supporting system for sustainable access to financial services and that of new strategic partnerships to expand microfinance in the world.

### **2.4.3 The International year of microcredit**

The objective of UN resolution 53/197 was to recognize in microcredit and microfinance in general, a valid and effective tool in the fight against poverty and the achievement of Millennium Development Goals (MDGs). Moreover, thanks to several resolutions approved by UN institutions, countries involved have been committed to a series of programs aimed at both the creation of microfinancial services and the abolition of absolute poverty in the fulfillment of UN Millennium Development Goals.

The International Year of Microcredit 2005 is included in a larger project described in the UN publication “Blue Book – Building Inclusive Financial Sectors for Development”. Before this book, after the Conference held in Monterrey, Mexico, between 18 and March 22, 2002, in the related publication “Monterrey Consensus of the International Conference” it was stressed that *the financial Microfinance and credit for micro-, small and medium-sized enterprises, including in rural areas, particularly for women, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector services may be a valuable instrument for improvement of the living conditions of the poorest*<sup>55</sup>.

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<sup>55</sup> Development banks, commercial and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises, as well as an adequate supply of medium- and longterm credit. In addition, the promotion of private-sector financial innovations and public-private partnerships can also deepen domestic financial markets and further develop the domestic financial sector. The prime objective of pension schemes is social protection, but when those schemes are funded they can also

In follow-up of the International Conference, was published then the Blue Book, which is a project of United Nations Department of Economic and Social Affairs (UNDESA) and United Nations Capital Development Fund (UNCDF) in collaboration with the World Bank, the IMF, International Labour Organization (ILO) and International Fund for Agricultural Development (IFAD).

Subsequent conferences and meetings contributed to the preparation of this guide in which the main objective is to provide a valuable tool, both to private and public sector, in order to overcome the problems that restrict access to financial services. It is important to point out how this project does not seek to collect a consensus around the importance of different and targeted financial services, but rather to provide a tool that allows the access of fundamental financial services to all people in developing countries. The result of such improved access are expected to be enhanced economic growth and development, the reduction of poverty, and progress toward achieving the Millennium Development Goals<sup>56</sup>.

#### **2.4.4 The Millennium Development Goals Report 2014**

*“The Millennium Development Goals have shown that we can make profound differences in people’s lives. The journey we started in the year 2000 has seen us build a solid foundation for further progress.”*

UN Secretary-General Ban Ki-moon

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*be a source of savings. Bearing in mind economic and social considerations, efforts should be made to incorporate the informal sector into the formal economy, wherever feasible. It is also important to reduce the transfer costs of migrant workers’ remittances and create opportunities for development-oriented investments, including housing. The final text of agreements and commitments adopted at the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002.*

<sup>56</sup> *Inclusive financial sectors — those in which no segment of the population is excluded from accessing financial services — can contribute to attaining the goals contained in the United Nations Millennium Declaration, such as halving the proportion of people in the world who live in extreme poverty by 2015. “Blue Book – Building Inclusive Financial Sectors for Development United Nations, NY, 2006.*

The Millennium Development Goals to which I referred earlier is considered by the United Nations, and especially by the Secretary General Kofi Annan, the political agenda of the UN because their achievement is considered vital for the future of the planet.

The deadline for most of MDP (Milion Development goals) is 2015 while the progress is estimated from 1990. Country data are aggregated to regional and subregional level on UN geographical divisions even thug the situation can be significantly different in some of countries enclosures in those geographical groups. The first division occurs between “developing” and “developped country”<sup>57</sup>

GOAL 1: “*Halve, between 1990 and 2015, the number of people living with less than a dollar a day*”; this goal has been realised 5 years ahead of the 2015 deadline because the rate of peple that live with less than \$1,25 has dropped to 22% in developing regions while in 1990 were close to half population. The problem is still that the extreme poor live in a few number of countries, for instance India (32%), China (35,5%), Nigeria(8,9%), Bangladesh (5,3%) and Democratic Republic of Congo(4,6%).

GOAL 2: “*Achieve universal primary education*”; the enrolment rate in primary education increased by 7 percentage points, passing from 83 to 90 %. By 2012, there were still 58 million children out of school, the 50 percent of which live in conflict-affected area. (Sub-Saharan Africa, 44%, Southern Asia 19%, Western Asia and Northern Africa, 14%).

GOAL 3: “*Ensuring gender equality in primary and secondary by 2005 and in all levels of the same by 2015*”; gender equality is calculated on the gender parity index (GPI), defined as girls’ gross school enrolment ratio divided by the corresponding ratio for boys, gender equality is

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<sup>57</sup> The distinction aims only at statistical analysis since the designation does not follow any convention.

established in a range of values between 0.97 and 1.03. In 2012, Southern Asia region had the best trend, with a GPI equal to 1.00<sup>58</sup>.

GOAL 4: “*Reduce child mortality*”; the annual rate of reduction in under-five mortality was incredibly high. If we consider that the child mortality rate has halved since 1990. Nearly 14 million deaths were prevented by measles immunization.

GOAL 5: “*Improve maternal health*”; in developing regions 40 millions births were not attended by skilled health personnel. The number of mortality due to pregnancy and childbirth were 300,000 in 2013 even if globally mortality rates dropped from 380 to 210 deaths per 100,000 live birth. The mortality rate is particularly high in some country, for instance India, with an estimated 17% and Nigeria (14%).

GOAL 6: “*Combat the spread of HIV, malaria and other serious diseases*”; the number of new HIV (human immunodeficiency virus) infections per 100 adults aged 14 to 45 has decreased by 44 per cent between 2001 and 2012. In 2012, an estimated 1.3 million people died from the disease, of whom 320,000 were HIV-positive. The number of deaths from tuberculosis per 100,000 people (excluding HIV-positive people) has been falling in most regions. Current trends suggest that the Stop TB Partnership target of halving 1990 mortality rates by 2015 will be achieved both at the global level and in several regions.

GOAL 7: “*Ensure environmental sustainability*”; between 2000 and 2010 there are still 13 million hectares of forest lost through devastation by natural disaster or human activities: the main reasons are urbanisation and large-scale commercial agriculture. Between 1990 and 2012, almost 2 billions

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<sup>58</sup>“However, there are still countries in that region where gender parity is yet to be achieved, namely, Afghanistan and Pakistan—where there are at most nine girls for every ten boys enrolled—and Bangladesh and Nepal—where the gender disparity favours girls.” MDG Report, 2014.

additional people gained access to an improved sanitation facility even though 1 billion people still recur to open defecation.

OBJECTIVE 8: “*Develop a global partnership for development*”; the objective is to foster international collaboration by creating standards not discriminatory free trade; increase agreements between public and private sector in key sector such as pharmaceutical industry; allow the governments of developing countries to pay their debts in manner compatible with their possibilities. Development assistance attained 134.8 billion in 2013 which is the highest level ever recorded. As concerns the debt burden, It is lower than 2007 but still stable at about 3 percent of export revenue.

#### **2.4.5. 2006: The International recognition of Microfinance**

*“All human beings are very creative—full of potential, full of energy...So, money kind of allows them to express it ... And if you're successful, you can take more money. You can expand your capacity, reach next level of capacity, and so on.”*

Mohammed Yunus

In 2006, microfinance notoriety increased with the Nobel Prize awarded in two equal parts by Muhammad Yunus and Grameen Bank. After the Noble price recognition, Microfinance obtained a special consacration in the economic field and allowed a new engagement of politics and financial supporters in his favour. In the Statement of the Nobel Committee “Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Microcrediti s one of such means. Development from below serve sto advance democracy and human right”(The Norwegian Committee, 2006). The question that comes spontaneously is: why an economist

awarded *peace Nobel Prize*? In the next paragraph, I will try to make a possible explanation of Yunus' peace award pointing out that is more reasonable than price in Economic Science.

Yunus economic theory assumes that modern economic theory has completely neglected the auto-entrepreneurship outside of the productive organizations owned by the capitalists. He claims that current theory of political economy sees economic behavior motivated only by profit and not to social outreach.

In Yunus economic theory the fight against poverty should have a bottom-up approach; based on the assumption that poverty emancipation, until now, has been the exclusive domain of public institutions. Such Institutions have imposed top-down solutions and measures proved ineffective or even cause of the increasing dependence of the poor on public assistance. Thus, the public sector must take a step back in the design, organization of programs related to poverty alleviation. According to Yunus, Governments might leave space for civil society organizations, which are able to propose bottom-up solutions. Mohammed Yunus awarded the Peace Nobel Prize because in a period of investment Banks, ruthless multinational enterprises and financial assault, there is an immanent proof of how to “adapt” Banks to the poor, for peace in the world and in favor of humanity. According to Yunus, *“What I did not know yet about hunger, but would find out over the next twenty-one years, was that brilliant theorists of economics do not find it worthwhile to spend time discussing issues of poverty and hunger. They believe that these will be resolved when general economic prosperity increases. These economists spend all their talents detailing the process of development and prosperity, but rarely reflect on the origin and development of poverty and hunger. As a result, poverty continues.”*<sup>59</sup>

Peace Nobel Prize contributed to Yunus successful story and its spread around the world. Thanks to operational and media success of Grameen Bank, first experiences of microlending in Bangladesh

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<sup>59</sup> M. Yunus, *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*, Public Affaires 2003 (first published 1991).

were a matrix of a lot of following microcredit activities in the rest of the world. Even If products have been adapted and transformed, we can identify some generally applicable principles: small amount of credit, progressive delivery and short-term borrowing.

Figure 2. The characteristics features of modern microcredit

CHARACTERISTIC FEATURES OF MICROCREDIT	
Lending	Borrowers
Small loan sizes	Poor
Little or no collateral required	Predominantly female
Non-credit services offered	Low education levels
Regular loan payments	Geographical remoteness
Peer group liability	Few assets
Donor-funded	Agriculture-related occupations

Source : Food and Agriculture Organisation of the United Nations (FAO)

Hence, its notoriety, together with the emergency of a profitable growth in MFIs number, attracted private actors in the sector. More specifically, it coincided with the creation of specialised fund-The Grameen Fund<sup>60</sup>- that deducted financial resources from the North dedicating it to the MFIs from the South. The major problem is the consequent progressive integration of an alternative financial system, as Yunus model, with the traditional financial sector. That happens in ventures where Grameen Fund act as private entrepreneurships (Grameen CyberNet, Grameen Knitwear).

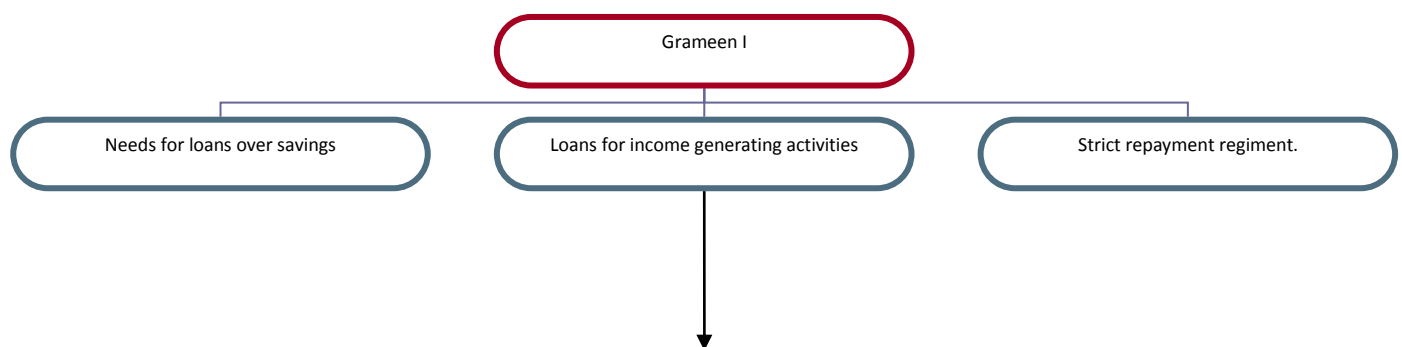
<sup>60</sup> Grameen Fund is a not-for-profit company in Bangladesh established in 1994 by Muhammad Yunus to provide risk capital to small and medium enterprises (SME) beyond the scope of Grameen Bank's objectives of providing microcredit to the very poor (Grameen official website, <http://www.grameen-info.org/>, accessed 07/03/2015)

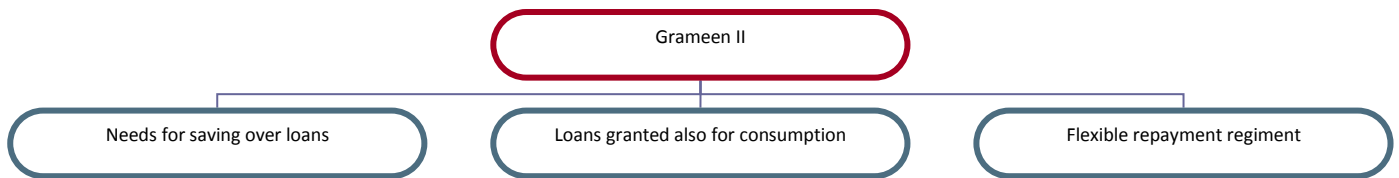
In the end, the flow of private capital originated also a very rapid growth of microfinance, especially in Central Europe and Latin America, but it resulted in growing tensions between the social mission of MFIs and the necessity to ensure reasonable margin of profit to private founders. In 2007, the entrance of COMPARTAMOS -the biggest Mexican MFI- into the stock Exchange market has induced spectacular gain to institutional funds. This event has crystallised the debate on the slowly drift towards a too commercial vision of microfinance, in contrast with the social performance that was the core concept of the first experiences in the sector.

## 2.5 Grameen II: lighter measures for solidarity lending

Grameen Bank experienced trouble in the late 1990s, when the quality of its loan portfolio began to decrease sharply, and a devastating flood further eroded loan repayments. A large number of natural disasters took place in Bangladesh from 1995 to 1998, including a huge flood in 1997/98, which have thrown half of Bangladesh completely below the water level, forcing the population, and therefore also the beneficiaries of loans -who on that that occasion have lost their land and their homes- to start again from scratch.

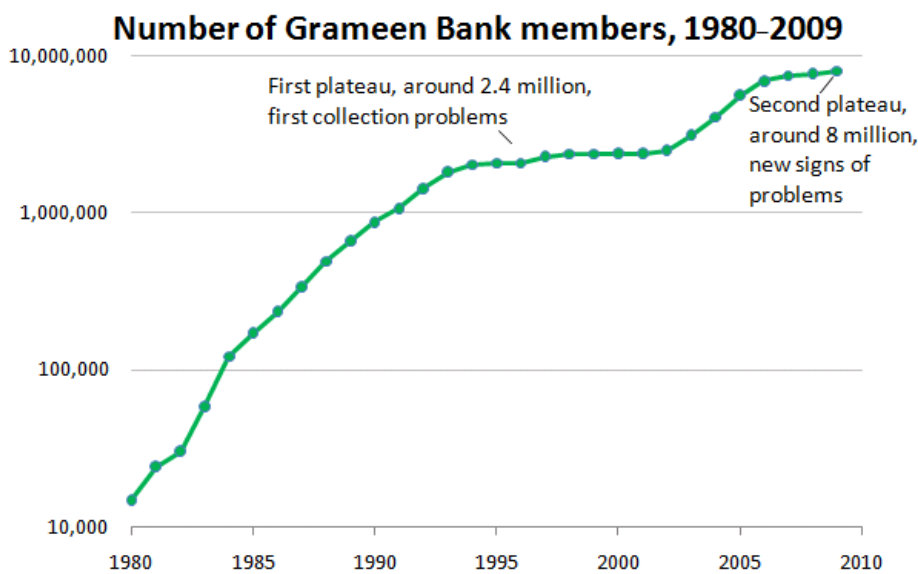
Figure 3. Grameen original model and Grameen II in comparison.





Grameen Bank responded by adopting a new model in 2001, named Grameen II. Grameen II was designed to be more flexible than the original model: flexible schedules to align repayment with household income flow, secure and reliable savings products, and acknowledge of the varied needs of clients. The new approach resulted in the augmented presence of financial institutions into the clients lives.

Figure 4. The Number of Grameen Bank members between 1980 and 2009<sup>61</sup>



Source: Center for Global Development

Initially the Bank opted to set off a new loan program aimed at the reconstruction and the beginning of new activities. Soon the weight of repayments rates became too heavy and beneficiaries, without a home and a job, oppressed by the weight of the old and new debts, began to

<sup>61</sup> The table shows that despite the current plateau in membership, the Bank has maintained growth in taka terms by increasing lending per member.

be absent from the Centre Meetings and not to reimburse how they you should. The increased default rates created serious damage cost to the Bank. From the crisis, after countless efforts to change the situation, a Grameen Staff conceived a new lending model, the so-called Grameen Generalised System (GGS). This was an ambitious internal reform of Grameen products and organisation, in which flexibility, simplification and streamlining of loan conditions, where the key terms. With refence to most innovative features new products had:

In order to “lighten” credit conditions was allowed more flexibility in time (from 3 months to one year) and in repayments’ rate (possibility of varying payment dates following seasonality issues). Moreover clients could demand more flexibility in the progressiveness of credit amount and the general lightened saving condition. They could ask for a flexible rate and reduction of group dynamics (less responsibility If one is defaulting).

The planning began formally on 14/4/2000 (Bengali New Year). Between 2001 and 2002 all over 1170 branches adopted the new GGS system, despite various internal resistance hostile to such a radical change but in light of the facts absolutely necessary. The new program reduced the range of loans (before this great innovation system included about a dozen different loans) and today the GGS is designed around a basic product: the basic loan or shohoj. Parallel to the base lending exist three other types of products, which I will discuss later and which are the Loan for Special Projects, the Housing Loan and Education Loan.

About general terms, Grameen II signed the end of the group dynamic as the centre of Grameen model and a new direct contact between the Bank agent and the individual.

The basic loan defined as "The Grameen Microcredit Highway" is a loan based on nominal cycles predefined in time. Unfortunately, it can occur that the beneficiary becomes temporarily insolvent due to events external to him, for instance health problems, natural disasters but also the failure of the business undertaken. Grameen Bank in this case offers a way-out. An alternative route, a

temporary discharge from this highway through flexible loan or *chukti*, by which the contractor must sign a renegotiation of the loan with a schedule of tailored<sup>62</sup> repayments rates (fig. 3). During this period the client can request new loans but the value should be less or equal to the basic loan, at least until the debtor will not be able to leave the flexible arrangements.

The simplification process deleted a substantial amount of loans, object of confusion and ambiguities.

As an indirect result, problem of group selection seemed to be solved : unreliable people were automatically excluded by group members because they were required to pay in case of individual's insolvency. Finally, the responsibility of the loans became nominal.

### **2.5.1 Why did Solidarity lending fail?**

We have seen that Grammen Bank has been gradually abandoned the solidarity-lending<sup>63</sup> model. I will try to highlight the advantages but above all the limits of this microfinance model that Grameen Bank has abandoned in search of more innovative solutions.

The main advantages or positive impacts are at two important stages:

- Group  
Selection: group's members know better than any credit agent, who is going to repay the credit. Since community member are in charge of the constituency of the group select reliable partners because bad players can effect the credit agreement.

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<sup>62</sup> Essentially the debtor while solving his difficulties begins a new temporary program specially designed by an officer of the Bank.

<sup>63</sup> involves collateral-free loans through solidarity groups and village organizations

pressure: in terms of individual responsibilities, each member do not want to be responsible of the group failure.

Moreover If the credit methodhodology is adapted to the context, solidarity lending can decrease the administrative and management costs : auto-selection described above, combined or not with other analyses of future clients, enables the financial institution that deliver microcredit to realize substantial savings because the group is in charge of managing individual relationship.

Solidarity lending is still highly documented in microfinance today, particularly in Asia. Grameen Bank was the pioneer but other major practitioners are widespread in the world: SEWA, Bank Rakyat Indonesia, Accion International<sup>64</sup>, FINCA, BRAC,SANASA and the Calmeadow Foundation who was another important pioneer.

Now “modern solidarity groups” are different from the initial ones, especially in dimensions. I will try to assess why the micro dimensions are so important in shaping microfinance practice.

Firstly, solidarity groups are small enough to encourage a maximum level of joint responsibilities<sup>65</sup>: typically composed of 5 people, the size is considered as a free riders deterrent and reduces the impact of one-person misfortune.

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<sup>64</sup> ACCION’s headquarters are in Mexico and their functioning is independent from States’s subsidy while other affiliates in different countries, including six in the United States, were unable to achieve financial sustainability. The largest impediments for U.S. programs seemed to be a mixed record of repayment, and usury laws that prevent microfinance institutions from charging interest rates that cover costs . See Pham, Alex. 1996. “Profile: Michael Chu; A Man of Principles—and Principals,” Boston Globe, July 21, pp. D1, D5.

<sup>65</sup>“A major reason for the prior failure of credit cooperatives in Bangladesh was that the groups were too big and consisted of people with varied economic backgrounds. These large groups did not work because the more affluent members captured the organizations” Asif Dowla & Dipal Barua. *The Poor Always Pay Back: The Grameen II Story* Kumarian Press Inc., Bloomfield, Connecticut, 2006, p. 18.

The December 2009 edition of *MicroBanking Bulletin* put one distinctive microfinance methodology in solidarity lending<sup>66</sup>. It tracked the positive effects firstly on the client side and secondly on the Bank employee thanks to economies of scale:

*“MFIs that allow clients to borrow and save very small sums without physical guarantees often using solidarity groups tend to be highly transparent and committed to client protection . Unfortunately, they appear to do so at the expense of social responsibility to employees . Nevertheless, institutions tend to drop this approach as their portfolios grow. Analysis of appropriate services and social responsibility confirms the importance of economies of scale in social performance (Copestake, 2007): large institutions clearly score higher in these areas.”*

Of 679 microfinance institutions worldwide that are in the sample of the *MicroBanking Bulletin* at the end of 2009, 67 lent only through this method (9,9%), against 39 (7.8%) tracked in 2006 -with a total of 446 MFIs- while other 272 (40,1%) used a mix of solidarity and individual lending, 205 (45%) in 2006. This data show a small increase in solidarity lending; lenders are meeting the needs of a market segment that is significantly poorer than other lendings' models but also we must say they are operating in significant poorer countries. Although we are not able to estimate whether or not are the very poor who benefited from solidarity lending.

The methodology of solidarity lending shows some relevant limits and risks. According to the literal definition of “collateral-free” lending, the program work until solidarity persists amongst group's members. It may happen that the credit agent of a microfinance institution has not enough time to estimate the social ties existing between members because she/he put a clear and ambitious strategy to productivity instead of social capital. Sometimes Bank agents pay too much attention to economies of scale: they address their financial support only to group leaders underestimating problems that can occur at the individual level.

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<sup>66</sup> The other methodologies listed in the *Microbulletin* are Individual, Solidarity Group, Individual/Solidarity and Village Banking.

We could sum up the problem in terms of group constitution: It should not be a conditional element to obtain credit or just the alternative form of collateral for the unBanked. That the risk of group formed merely for necessity reasons is high and difficult to assess. If solidarity has a fictitious nature, the repayment rates will sink at first difficulties.

Some studies have suggested that institutions actively targeting the poor tend to have higher operational costs. Hashemi and Rosenberg (2006) explain this Statement with four main reasons:

1. Higher risks to submit;
2. Lack of guarantees inherent to this clientele;
3. Reticence to join microfinance programs;
4. Challenges of providing the non-financial support this population requires.<sup>67</sup>

Therefore, when social performance is understood as simply targeting the poor, its value-added is limited (Lapenu, 2007, Armendariz and Szafarz, 2009).

The practice of solidarity lending would not be the best methodology everywhere and the research of alternative approaches is still required even in the poorest countries. As revealed by the empirical research of Almendariz and Murdoch (2005) the search will go ahead since negative results of solidarity lending are witnessed all over the world :

*“borrowers growing frustrated at the cost of attending regular meetings, loan officers refusing to sanction good borrowers who happen to be in ‘bad’ groups, and constraints imposed by the diverging ambitions of group members.”<sup>68</sup>*

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<sup>67</sup> Hashemi refers to the Bangladesh Rural Advancement Committee as a successful example of reaching the poorest. BRAC “to reach extremely poor people often has combined access to financial services with a variety of nonfinancial services, such as livelihoods training. In CGAP’s search for models to fight extreme poverty, we were particularly inspired by the innovative and holistic approach developed by the Bangladesh Rural Advancement Committee (BRAC) over the past three decades. We have written about the model and have extensively advocated for it as an important pathway for many of the poorest to escape extreme poverty” (Hashemi, 2011).

<sup>68</sup> Beatriz Armendáriz de Aghion & Jonathan Morduch, *The Economics of Microfinance* , 2005, p. 114.

### **2.5.2 Limits and risks of solidarity lending**

Microfinance fails when there is a genuine ignorance of social environment and the existing social ties before the program; even if the product resulted successful in previous experiences, if it does not take into account social environment, the solidarity scheme will not work.

Moreover, solidarity credit is accused of applying “massification logic” to groups; it means that efforts to ensure that all members are equally poor may not always improve group performance. Armendariz and Morduch consider greater socio-economic diversity in terms of opportunity for group reliability “means that group members’ incomes are less likely to vary together, and thus group members’ ability to insure each other increases<sup>69</sup>”.

Moreover, much criticism was moved against the increase of transactional costs to clients; MFIs cut down transactional and follow-up costs transferring them to clients. They have to dedicate time at the beginning for group formation, meeting and defaulting members. The amount of time dedicated to microfinance is an added cost for the client, although its nature is not monetary.

If auto-selection allows the exclusion of bad payers, studies have demonstrated that this mechanism may eventually exclude the most vulnerable. On the opposite side, the solidarity lending approach, which excludes less-poor borrowers, was adopted in large part because of Comilla model’s<sup>70</sup> failure in Bangladesh.

### **2.5.3 The versatility of Grameen model**

Although microfinance movement started in developing countries, its scope has become global because it has huge potential to transform economic situations. Despite the cultural and socioeconomic differences, microfinance models, as solidarity lending, were globally adopted at

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69 Beatriz Armendáriz de Aghion & Jonathan Morduch *The Economics of Microfinance*, p. 108.

<sup>70</sup> The name comes from the Academy location, which was on the outskirts of Comilla town.

different scales. The Conference of United Nations Conference on Trade and Development (UNCTAD) estimated that there are about 7000 MFIs around the world and that they reach only a small portion of potential clients (Filippis, 2000)<sup>71</sup> while the Grameen Bank estimates that there are approximately 20 million customers enjoying microcredit services (Filippis, 2000).

Grameen methodology works in Bangladesh, a particular context where poverty is deep and widespread. The starting variables are therefore essential: the country is densely populated with 152.4 million (UNdata, 2012)<sup>72</sup> citizens while the major employer is agriculture. The labour market is unable to meet the demand for jobs and many Bangladeshi citizens try to find a work abroad, often illegally. In Bangladesh democracy was restored in 1990 after 15 years of military rule; the political situation shows a strong antagonism between the main parties -the Awami League and the Bangladesh Nationalist Party- and in recent years concern has grown about religious extremism in the usually moderate and tolerant country. The Grameen Bank decision to move from a model based on the logic of the group to a more individualistic one should be read in the light of these social variables that define the context.

We can transfer Grameen methodology in other developing countries with similar features, in Asia for instance, but solidarity lending will not work if there is no previous consideration of the environment and adaptation to its features. In particular, “solidarity” will vary according to the particular connotations that it assumes in each local community. We should take into consideration, for instance, the degree of cohesion and mutual assistance, the capacity of group organisation and also the presence of a strong local leadership.

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<sup>71</sup> See Filippis, V. (2000) *Le microcredit maxi rentable*, Liberation, Monday 11 December 2000, Paris. Pp 26-27

<sup>72</sup>United Nation country profile, Bangladesh <https://data.un.org/CountryProfile.aspx?crName=Bangladesh>

### **3. FINANCIAL INCLUSION DEALING WITH MICROFINANCE CRISIS IN ANDHRA PRADESH**

#### **3. 1 Financial Inclusion, the core of microfinance**

Microfinance has proved two revolutionary ideas about financial inclusion: we can conceive financial services of proximity adapted to the population excluded from the formal financial system and the organisations that offers these services could be sustainable.

It stems from the above that financial inclusion is at the core of micro-financial activities. Some scholars indicate three dimensions to assess financial inclusion: easy physical access, flexibility, and reliability (Beck, Demirgüç-Kunt and Honohan 2009; Fernando 2007; Sophastienphong and Kulathunga 2008).<sup>8</sup>

Access to finance raises the living standard of poor people and It is considered as a key constraint to private sector growth (Martinez Peria, 2005). The World Saving Bank Institute has defined financial inclusion as ‘the provision of access to appropriate, convenient, usable, valuable and affordable financial services and products to the widest part of the population, especially through the delivery of basic Banking services to the low income people and the still unBanked, as a way out of poverty’ (WSBI Santiago Declaration 2009)<sup>73</sup>.

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<sup>73</sup> The World Savings Banks Institute (WSBI), brings together 110 members representing 7 000 savings and socially committed retail Banking institutions, which share a strong focus on retail customers, SMEs and local

Concerning geographical dimension delivering in proximity is not evident for underserved population in rural and remote areas of developing countries; moreover, if the product should be accessible and affordable for very low-income people; on time dimension, the financial support may be continuous between clients and Bank agents.

It is certainly true that a sound and efficient regulatory environment is a precondition for the continued successful development of financial inclusion. Nevertheless, especially in developing countries, poor people have little influence over policy reforms and financial development involve primarily the rich.

Good information, healthy competition and innovative services are crucial for reducing poverty and boosting shared prosperity. The government's positive action encourage financial service providers to embrace new technologies (e.g., mobile Banking, biometric identification) and products (e.g., commitment accounts, index-based insurance).

Sophastienphong and Kulathunga<sup>74</sup> (2008) in their study on south Asian financial development took into account six micro-indicators of Banking access:

1. Demographic branch penetration (branches per 100,000 people)
2. Demographic ATM penetration (automated teller machines [ATMs] per 100,000 people)
3. Deposit accounts per 1,000 people
4. Loan accounts per 1,000 people
5. Geographic branch penetration (branches per 1,000 square kilometers)

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authorities, operate through extensive distribution networks that enable them to develop proximity services and provide regional outreach, and a socially responsible approach to business and to society. The WSBI network extends to 92 countries throughout the world, including both developing and mature markets. At the occasion of the 22nd World Congress (April 2009), the General Assembly of the WSBI adopted the following Declaration "Financial inclusion in a globalised world: OUR CHALLENGE"

<sup>74</sup>See "Getting finance in South Asia: Indicators and analysis of the commercial Banking sector", Kiatchai Sophastienphong Anoma Kulathunga, 2010, The world Bank.

## 6. Geographic ATM penetration (ATMs per 1,000 square kilometers)

Similarly, the three dimensions of an inclusive financial system in Sarma (2008) were Banking penetration (number of Bank accounts as proportion of total population); availability of Banking services (number of Bank branches per 1000 population) and usage dimension (Bank credit and Bank deposit as percentage of GDP).

Experience shows that the amount of saving depends partly on how widespread these facilities (i.e. savings institutions) are: if pushed right under the individual's nose, people save more than if the nearest saving institution is some distance away (Lewis, 1955).

### **3.2 Financial Inclusion in India**

Being a country with a significant poor rural population, India has attracted many MFIs. In 2010, India had an estimated population of 1,236,344,631 (July 2014 est.)<sup>75</sup>. In 2010, approximately 29.8% of Indians lived below the World Bank's official poverty line of \$1.25 per day. In 2011 approximately 90% of Indians lacks access to formal financial services (Chau 2011)<sup>76</sup>. In fact, from 2003 to 2009, the number of microloans extended to the poor in India grew from 1.0 million to 26.7 million (Chau 2011). Annual interest rates vary across the country, from 24-30% to the highest 120% charged by usurious moneylenders (Biswas 2010)<sup>77</sup>. As I will discuss in the next chapter, the MFI rapid development in some Indian States affected impoverished and illiterate rural people through over-indebtedness .

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<sup>75</sup> CIA world factbook 2014.

<sup>76</sup> Chau, Tran. "Part 1: Current State of Microfinance in India." Kiva. Updated 9 Feb. 2011. Web. <http://fellowsblog.kiva.org/2011/02/09/part-1-current-State-of-microfinance-in-India/>. Accessed 14 Feb. 2015.

<sup>77</sup> Biswas, Soutik. BBC News, Medak, Andhra Pradesh. "India's micro-finance suicide epidemic." BBC. Updated 16 Dec. 2010. Web. <http://www.bbc.co.uk/news/world-south-asia-11997571>. Accessed 14 Feb. 2015

The first approach to financial inclusion in the 1960s was Bank-led and supply-side or credit given. Andhra Pradesh, India's fifth largest State with an estimated population of 80 millions, is one of India's poorest provinces and thus an important centre for MFIs. More specifically a third of all Indian loans are disbursed in Andhra Pradesh alone (Rai 2011)<sup>78</sup>, holding a value of approximately \$2 billion, or 80 billion rupees (Biswas 2010). The microfinance industry of Andhra Pradesh grew very quickly, resulting in a rapid and widespread increase of borrowers who use multiple loans. Multiple loans is a serious problem in Andhra Pradesh where about 83% of households received loans from more than one source, including moneylenders (CGAP). This phenomenon troubled because borrowers were not fully aware of the magnitude of their various debts. The Indian government estimates that households in Andhra Pradesh have an average annual income of \$1,060 while an average debt of \$660 (Biswas, 2010).

Indian Government has a long tradition in the promotion of financial inclusion; Bank penetration started with nationalization of 14 Banks in 1969. Today we have different financial institutions: nationalized Banks, co-operative Banks, private Banks, foreign Banks, non-Banking finance company, chit-funds Company and microfinance Company. The rural financial intermediation was established with Regional Rural Banks (RRBs) in 1975 and the National Bank for Agriculture and Rural Development in 1982 which was in charge of developing the cooperative credit system. The National Bank for Agriculture and Rural Development (NABARD) launched a pilot to establish a link between groups of low-income people in rural areas and Banks.<sup>79</sup> The Self Help Group-Bank Linkage was developed in 1996, when linkage Banking was indicated as a priority sector lending. . SHGs mobilizes savings of the poor, many of whom do save through the Banking system. The share of SHG is held mostly by commercial Bank and regional rural Bank

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<sup>78</sup> Amin, Sajeda; Ashok S Rai; and Giorgio Topa. "Does microcredit reach the poor and vulnerable? Evidence from northern Bangladesh." *Journal of Development Economics*, 70.1 (Feb. 2003): 59-82.

<sup>79</sup> "Trend of increase in Banking penetration has been registered in all regions irrespective of the level of penetration. On an average, Bank branch can handle at the most 4000 account holders" R. Pradeep, *Financial Inclusion, Viable Opportunities in India*, Ajay Garg, 2009.

If we consider the main objective of microcredit as poverty reduction, cities were eligible as well. Nonetheless, city centres became a matter of serious debate in India when rural markets have almost reached a saturation point. In order to estimate financial access in rural India, we should say that formally, there is not a legal frame-work but the Reserve Bank of India regularly registers commercial Bank expansion.

However, SHG-Bank linkage is still a rural phenomenon with some exceptions; the city of Mumbai has 7000 SHGs and 2000 are Bank-linked<sup>80</sup>. In 2014 under the jurisdiction of Pune Municipal Corporation, 12,000 self-help groups are listed, even If merely 3,000 of them seem active.

It was justified by the fact that people within the groups reinforce financial awareness in a parallel system self-managed by members. Hanumant Nazirka, the project director of Urban Community Development Department, Stated: “If you talk of self-employment, around 3,000 self-help groups are active... But then there are also those who are into saving and lending among themselves, which is one of the principles of the concept of self-help groups.”<sup>81</sup>

Afterwards the “No Frills Account”(NFA), a basic free account for low income people, moved basic saving account into advance financial inclusion, because NFA relaxed identity<sup>82</sup> and address requirements for low balances although the number of transactions was limited and depending on each Bank internal policy. Some Banks decided to allow NFA only for households below a certain monthly income or below a fixed maximum balance. However, survey of districts where the financial inclusion get 100% of the population, as Karnataka districts, found that a large share of the

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<sup>81</sup> Indian Express, online article, “Days numbered for over 20,000 self-help groups”, 12 December 2014.

<sup>82</sup> Banks are required to confirm both ID (legal name and identity) and current address of accountholders. For identity, Banks may accept any one of the following as proof (whichever satisfies the Bank): passport, PAN card, voter ID card, driving license, identity card (subject to the Bank’s satisfaction), or letter from recognised authority verifying identify and residence of the customer. For correct permanent address, Banks may accept any one of the following as proof: telephone bill, Bank Statement, letter from recognised public authority, electricity bill, ration card, or letter from employer.

account remained dormant after being opened (Ramji, 2009).<sup>83</sup> One study in Tamil Nadu districts 100% financial included found that 75% of those accounts had near-zero balance after one year (Thyagarajan and Venkatesan, 2008).<sup>84</sup>

In 2010, the government and the central Bank have announced to provide financial services for 600.000 villages by 2015 through Bank branches of proximity; Political authorities have made financial inclusion one of the milestones to reach modernity in the country. In his first speech to the Congress, Aarun Jaitley who is currently the minister of Finance, Minister of Corporate Affairs and Minister of Information and Broadcasting of India, has declared that by August 2015 each adult man and woman of an Indian family will have a Bank account. This Statement is probably overly optimistic, but from my recent visit to India I can say I felt a very dynamic society and I will not be surprised to see major changes in the coming years.

At any rate official recognition is granted to the importance of basic financial services (better savings, credit and insurance options), to guarantee full and equal citizenship where more than 80% of people are employed in the informal sector<sup>85</sup>.

The minister of finance has promoted one important reform in the financial system through the Reserve Bank of India (RBI) approved in June 2014. The Rural Bank of India RBI, following the recommendation of a recent report realised by the Financial Inclusion Committee, has established that Non Banking financial companies (NBFC), can open for clients Bank current accounts deleting the requirement of being within 30 km from the Banking subsidiary. State owned Banks benefit more from this requirement, because of the widespread presence throughout the country.

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<sup>83</sup> Ramji, M., 2009. Financial Inclusion in Gulbarga: Finding Usage in Access (Working Paper Series No. 26). Institute for Financial Management and Research.

<sup>84</sup> Thyagarajan, S., Venkatesan, J., 2008. Cost-Benefit and Usage Behaviour Analysis of No Frills Accounts: A Study Report on Cuddalore District. Inst. Financ. Manag. Res. Microfinance Work. Pap.

<sup>85</sup> "Can India Achieve Financial Inclusion within the Next Few Years?", CGAP blog, Tilman Ehrbeck, 23 July 2014.

RBI set up the Khan Commission<sup>86</sup> in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). The report urged Banks to align them with the objective of financial inclusion.

Reserve Bank of India have presented a draft guideline for new Bank payment services. This licence would enable a mobile phone company to operate Banking transactions. Mobile Banking services are already well developed in East Africa majority of people have one mobile but still without access to financial services.

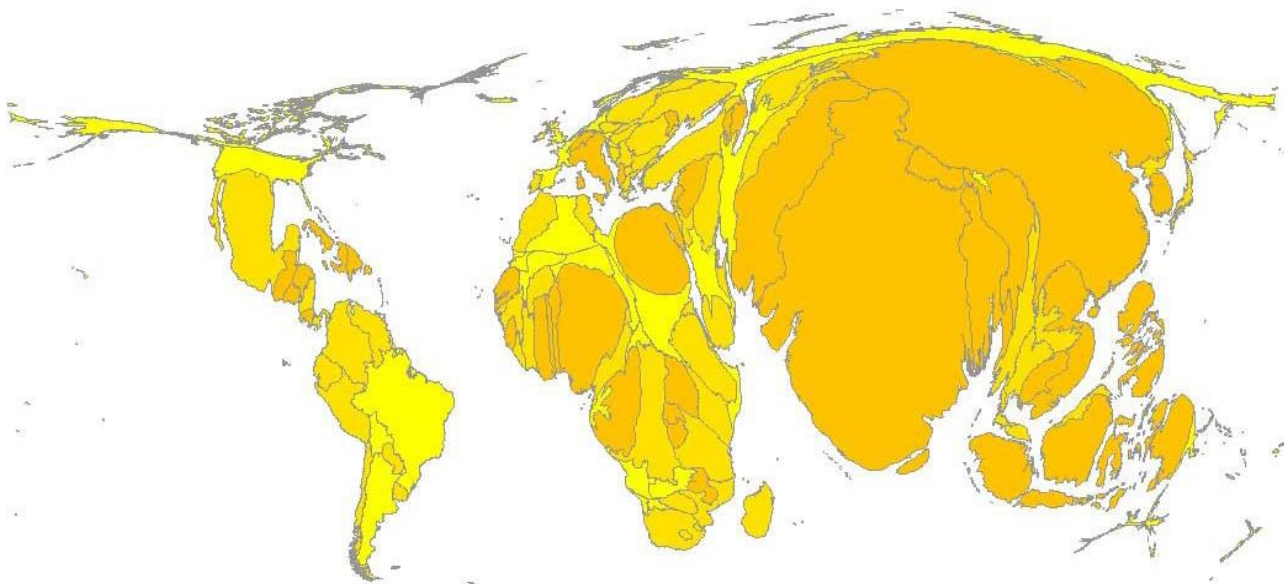
Benefit from the use of mobile phone have been witnessed in the totality of developing countries; in India now has reached 70% of the population while internet is still used by only 17% of the population.

In the World Bank Global Finance Development Report 2014 about Financial Inclusion, which is basically an overview of the financial inclusion status in the world, the role of mobile technology is deeply analysed, because It brings the Bank out of his traditional place, reaching far away population and reducing costs . Among the main messages of the report, *“New technologies hold promise for expanding financial Inclusion. Innovations in technology- such as mobile payments, mobile Banking, and borrow identification using biometric data (fingerprinting, iris scam, and so on)-make it easier and less expensive for people to use financial services, while increasing financial security.”*

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<sup>86</sup> The name of the commission came from Harun Rashid Khan, popularly known as H R Khan, is a Deputy Governor of Reserve Bank of India.

Figure 5. Where the 2,5 unBanked live.



Source: Calculations based on data from the Global Financial Inclusion (Global Findex) Database and World Development Indicators.

Source: Global Financial Inclusion (Global Findex)

The services provided through the Internet along with those available with the smartphone, allow a significant reduction in costs for the Bank: light branch concept has spread in Brazil as in India, where lowcost business was experienced through the creation of mobile units on trucks.<sup>87</sup>

Regarding identification systems, the rural Bank of India has experienced a biometric recognition system, AAadhaar card, which now covers 97% of the population. The AAadhaar card allow citizens to open virtual portfolios in real-time for recipients of money transfers at a national level. In this case, each Aadhaar card becomes instantaneously a Bank account; people can receive money transfers even if not registered in any Banking institution. This reduces the cost of opening a Bank account for both consumers and suppliers, meeting the aspirations of political authority of financial inclusion at a national level.

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<sup>87</sup> Anna Del Freo, "Ora la filiale della banca viaggia su camion e battelli", Il Sole 24ore, 4th February 2013..

Aadhar card is now connected to food rations, current accounts, government subsidies and registration of auto-vehicles, constituting the main source of information about individuals.

By November 10, 2014 the government has decided to make mandatory property records on Aadaar card. The property of cars and the driving licence will be associated then with the Adhaar card number.<sup>88</sup>

To disseminate the new payment systems, the government assumes a catalytic function; social programs grant subsidies only through this new channel. We must remember that social programs and subsidies to businesses in India have a value of \$ 60 billion dollars, and the shift to digital channel would have a strong innovative potential.

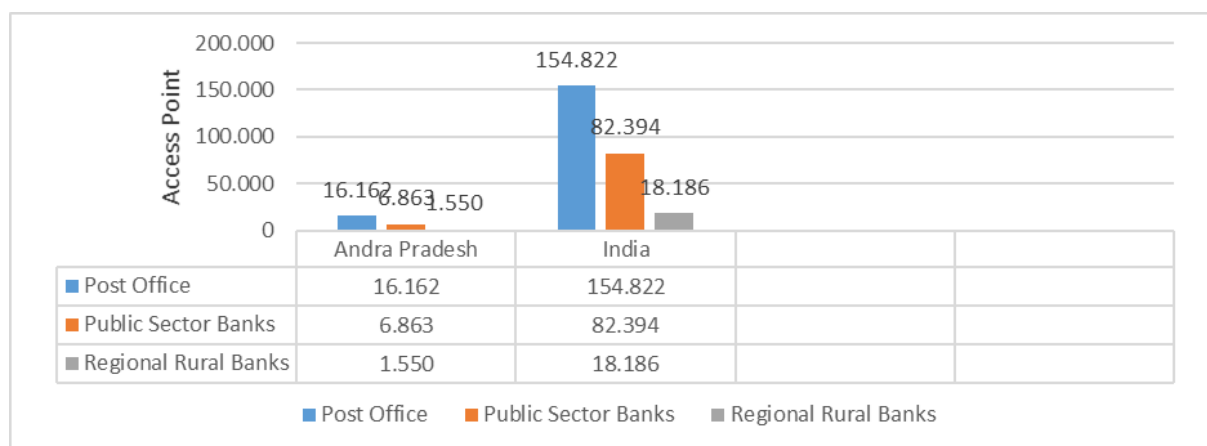
Microfinance to poor and low-income population in India was spread mainly through two channels: The Self Help Group Bank-Linkage Programme (SBLP) and microfinance institutions (MFIs) which grant loans through groups or individuals. Both models have gradually increased in the 90's, even if the programs of microfinance institutions were faster in reaching the populations poorly served in the most isolated geographic areas of the country.

The FinClusion Lab, available on beta version by the MIX, microfinance exchange, show financial inclusion by country profile; in the case of India, all indicators describes States singularly and in every State you can find the total amount of financial access points available. More specifically for Andhra Pradesh there are 26.927 access points. Post Offices are the first access point with a total number of 16.162, followed by Public Sector Banks (6.863) and Regional Rural Banks (1.550).

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<sup>88</sup> The Indu, "Aadhaar linkage for vehicle owners, licence holders", 7 November 2014, M. L. MELLY MAITREYI

Figure 6. Financial Inclusion in Andhra Pradesh compared to National level<sup>89</sup>



Source: Table based on data from FinClusion Lab, Microfinance Information exchange

In the late 90s the development of MFIs has reached its highest point for objectives reached, the diversity of product and technological innovation. However, the absence of a regulatory system along with other factors mainly political caused the crisis in the sector in Andhra Pradesh in 2010. Following the crisis, the MFI have suffered significant losses in terms of loan portfolio. Moreover, as Banks have stopped financing MFIs, they have not been able to make new loans to their customers, who have suffered a heavy setback. The population of the areas reached only by MFIs saw a major setback in development and economic growth. Afterwards MFIs have failed not only granting of new loans, but also in providing service and financial support.

The Banking and Financial sector has seen rapid changes in recent past thanks to innovations in communication and information technology. In developing countries like India, financial intermediation and Banking penetration correspond to an important segment of growth. In India we can see that Banks from the Public Sector are still the most prevalent with 82.394 access points to Bank services, while 18.186 are Regional Rural Banks and 17.923 Private Sector Bank, for a total amount of 118.887 access points<sup>90</sup>.

<sup>89</sup>From fig.5 we can see that Andhra Pradesh follow the National trend in terms of differentiation of financial access.

<sup>90</sup> FinClusion Lab, Microfinance Information exchange

### 3.3 Databases on Financial Inclusion

The first financial data were provided by traditional finance with reference to the interest area of the Banking sector funders. Beck, Emirguc-Kunt and Martinez Peria (2006) were the pioneer in providing a report with an aggregated data analysis. The survey presented data from 193 Banks in 58 countries collected via web-based instrument comprising 75 questions.

Their analysis was focused in particular on barriers to credit access, payment services and deposit, more specifically the survey investigate “vital services”, namely minimum balance in the account, annual fees and documentation required to open a Bank account. The results of the survey clearly demonstrates that lower barriers correspond to open and transparent economies, better contractual and information networks.

The survey sought to identify the link between the development of the financial system, level of economic inequality and poverty. The aim was to assess whether or not the spread of MFIs was linked to the development of financial system; in short, the survey suggests the possibility of having capitalism without poverty.<sup>91</sup>

Kumar then in 2008 expanded the sample, examining the five major Banks in 54 countries. He presented suggestions about making the Banking institutions more inclusive towards the poor. The book is a collection of contributions made in the microfinance Conference organized by the World Bank and the Brookings Institution. The study analyses variables such as direct and indirect costs of opening an account by client’s income and region; the factors analysed were documents required for account opening, time required and account maintenance costs.<sup>92</sup> Topics covered highlight the positive role of ICT and Internet-Banking in facilitating access to financial services. The study elaborates finally an index to rank the countries surveyed according to the convenience and gratuity

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<sup>91</sup> See “Beck, T., Demirguc-Kent, and Peria (2006). Banking services for everyone? Barriers to Bank access and use around the world”. World Bank Working Paper 4079.

<sup>92</sup> Kumar, Anjali, et al. 2008. “Banking the Poor.” World Bank Financial Access Unit, unpublished draft, July

of some services. The study takes into account some factors as loss-free balance, availability of ATM and individual notices sent to clients for each transaction performed. In the second part of the study, Kumar analyses the payment infrastructure in each country focusing mainly on four indicators:

1. The range of payment instruments offered by Banks in the local account standard (checks, payment cards, prepaid cards and credit cards).
2. The quality of the ATMs network and their degree of interoperability
3. The options available in terms of payment channels offered by Banks, used to initiate, execute and terminate the payment.
4. The time taken to complete local payment transactions

### **3.4 Microfinance in India: principles to achieve financial inclusion**

Microfinance has proved two revolutionary ideas: 1) we can conceive financial services of proximity adapted to the population excluded from the formal financial system; 2) the organisations that offer these services could be sustainable.

Microfinance now reaches in the world 190 billions families but the definition is still less than clear. Microfinance for loans is small-scale financial services to poor people who lack access to traditional Banking system. The term indicates poor people and small activities but what we define as *poor* and *small* affects the constitutive elements of the research. Initially, Microfinance offered just credits for small investment, but It has now expanded Its services including saving/deposit, micro-insurance, payment services and even more substantial investment. As evidence Microfinance is not just credit (otherwise, the term microcredit would have been sufficient) and not only institutions for the poor

are now providing microfinancial services. Among the provider of financial services we see commercial Banks and insurance companies, as well as big multinational companies who are trying to go down scale to reach new market (Armendariz, 2011). In fact the label microfinance will not match to everybody's perception of the term and the exclusivity of the financial services itself will depend on model, target group and services offered (Armendariz, 2011). Another side of the coin is that the exponential multiplication of institutions with the same "microfinance" label has led to deregulation, so that the sector has lost one of the fundamental principles that inspired first microfinance experiences, discipline. According to Yunus Statement:

*"these commercial organizations raise larger sums in volatile international financial markets, and then transmit financial risks to the poor. Furthermore, it means commercial microcredit institutions are subject to demands for ever-increasing profits, which can only come in the form of higher interest rates charged to the poor, defeating the very purpose of the loans."*<sup>93</sup>

Microfinance works on the basic assumption of solidarity and small social environment in which everyone takes care of others; rural environment guarantee more social ties than urban ones, as well as traditional community than dynamic and individualistic society. The last assumption deserve a specific mention: microfinance postulates a certain ethical behaviour that was missing in Andhra Pradesh when the microcredit crisis of 2010. I will look into the exact nature and interaction between global crisis and Indian economy, growth and market maturity context before going into details of Andhra Pradesh crisis.

### **3.5 Global crisis and local effect on microfinance**

Compared to other sectors, microfinance has not suffered devastating effects from the financial crisis of 2008. The decrease in prices of basic needs during the crisis and the possibility of relying

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<sup>93</sup> YUNUS, MUHAMMAD , Sacrificing Microcredit for Megaprofits, January 14, 2011

to internal deposits inside the financial institution rather than large international funds were essential for microfinance market stability.

Figure 7. Fao Food Index, Normal and defleated (Real): trend in India during the crisis

Date	Nominal Price Index	Deflated Price Index
2007	161,4	134,6
2008	201,4	155,7
2009	160,3	132,8
2010	188,0	150,7
2011	229,9	169,9
2012	213,3	161,0
2013	209,8	159,9
2014	204,4	152,8

Source: Food and Agriculture Organisation of the United Nations<sup>94</sup>

It seems that the 2008 financial crisis has highlighted the positive effects of microfinance as a means to ensure efficiency and a more equitable redistribution of wealth.

At efficiency level, the tendency is to emphasize the greater inclusion in the formal sector and consequently a higher overall growth. However, concerning equal distribution, the debate generated by the crisis of subprime mortgages has promoted discussion on the ability to enrich a few wealthy speculators on the shoulders of many disadvantaged and, therefore, the need to establish financial system inspired by ethical principles.

<sup>94</sup> Food Price Index is a measure of the monthly change in International prices of a basket of goods considered essential for our nutrition. We can appreciate a general decrease of both the nominal and defleated price from 2008 to 2009 and 2010. It is about 5 goods, weighed on the average exports of all good of the group in the period from 2002 to 2004 (2002-2004 = 100). Information available at <http://www.fao.org/worldfoodsituation/foodpricesindex/en/>.

The problem arises then when the MFI operation depends on international markets performance, which happens only when the institution does not have its own deposits; in most countries where microfinance has grown like wildfire from the 80s, the financial crisis has led to a contraction of liquidity available by International Fund and Bank holding companies that operates in different categories.

Fitch Ratings<sup>95</sup> noticed how, in 2009, the MFI had to increase the management cost of the whole world because of a general contraction of their liquidity. The money coming from the national and international Banks became in those years more and more expensive, due to the unfavorable exchange rate and inflation in developing countries. As a consequence, the investments have been much more cautious.

Figure 8. Historical Inflation in India

Period (Sept.)	Inflation
2014	6,303 %
2013	10,698 %
2012	9,137 %
2011	10,056 %
2010	9,816 %
2009	11,644 %
2008	9,774 %

<sup>95</sup>." If MFIs increasingly tap the international capital markets for funding, they also make themselves more prone to liquidity problems caused during global credit crunches. This undermines what is emerging as one of the main arguments for investing in microfinance for the global market investors — its lack of correlation to other emerging market asset classes — and could have a critical impact on the volumes of funding available, and therefore on growth expectations for the sector." The Microfinance Sector: its Success Could be its Biggest Risk, Fitch Ratings report, 2008.

Source: [global-rates.com](http://global-rates.com)<sup>96</sup>

In Africa, some lenders belonging to the European Banking sector have asked to MFI early repayments, proposing to eliminate associated fees; other international Banks, decided simply to dissociate from MFIs without allowing the refinancing of loans. Moreover, national Banks, being anyway dependent from international credit markets, reduced their lending to MFIs, although the immediate growth of rates was due to international Banks.

MFs understood that they had to enhance their sustainability to survive and independence meant self-financing loans. This measure is intended to increase the resilience of the financial system to negative developments in the international market trend. To achieve this objective was clear that MFIs should establish its own deposits, also in order to avoid the double price/exchange rate volatility reaction in many developing countries.

In recent years, MFIs who estimated the losses due to the exchange rate, reported that the value represents 7-43% of their benefits, one MFI in Latin America indicates that he has suffered astonishing loss of 75% in one year for debts in foreign currency.<sup>97</sup> Also in Latin America, dollarized economies such as those of Ecuador or El Salvador, were not much affected, but most of MFIs are implanted in countries where the currency is not associated with dollar. At this stage, the extent of the problem remains uncertain, but the exchange rate remains very unfavourable because of maturity mismatches between US dollar assets and liabilities.

Moreover, a slowdown in growth, combined with more cautious policies, better financial products and the merger of small microfinance institutions, with the consequent strengthening of the sector and greater protections for customers, can be beneficial in the long-run. The crisis has shown the

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<sup>96</sup> Inflation trend in India in recent years: inflation peak was registered in 2009, as side effect of financial crisis in developed countries. <http://it.global-rates.com/statistiche-economiche/inflazione/indice-dei-prezzi-al-consumo/cpi/India.aspx>

<sup>97</sup> CGAP Brief "The Impact of the Financial Crisis on Microfinance Institutions and Their Clients", Results from CGAP's 2009 Opinion Survey CGAP, 2008.

need of services of savings more than credit products. The lack of liquidity and international credit crunch led numerous national and international institutions for the development aid to finance the renewal or refinancing of Bank loans and the possible necessary recourse to other sources of funds. The Inter-American Development Bank, for example, announced in October 2008 to allocate \$ 20 billion dollars to help microfinance institutions in Latin America. Also in 2008, the Reserve Bank of India has financed a line of 1,5 billion dollar credit to SIDBI, the Indian Bank for the development of small businesses. Although the main objective is to respond to the emergency liquidity of small and medium enterprises, SIDBI, however, reserves the right to allocate the aid of microfinance to rehabilitate distressed institutions. In February 2009, then, the KfW and IFC launched a refinancing multinational mechanism of \$ 500 billion dollars to the MFIs.

However, all these measures are manoeuvres of urgency and as such cannot be replaced with local funding sources and even create conditions that discourage the mobilization of deposits. Finally, it seems clear that business operators had fundamental weaknesses because of external financing long before the crisis. Murdoch in 2000 Stated that it was necessary to get rid of the errors of the past, "now becoming familiar" because traditional Banking institutions are faced with high transaction costs for small-scale loans. Murdoch suggested that to monitor risks of potential customers and return of loans becomes particularly difficult when customers are poor and work in the informal sector. According to Murdoch, microfinance should come back on credit condition and collateral, reiterating the importance of resources to provide as collateral for loans.<sup>98</sup>

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<sup>98</sup> "Earlier attempts to address gaps in financial markets focused on a now-familiar set of problems: First, Banks face high transactions costs per loan when lending at small scales. Second, determine the riskiness of potential borrowers and monitoring the progress of clients is particularly difficult when clients are poor and in the informal sector. Third, many low income households lack assets to put up as a collateral" J. Murdoch, "The Microfinance Schism", Princeton University, New Jersey, USA, World Development Vol. 28, No. 4, pp. 617±629, 2000.

### **3.6 Micro-finance development in Andhra Pradesh**

Governments of Andhra Pradesh invested in the implementation of progressive policies against poverty, the most important of which is the "Society for eradicating rural poverty" (SERP). SERP is an autonomous society of the Department of Rural Development, created to implement Indira Kranthi Patha (IKP), a poverty reduction project for rural communities. SERP mission is to enable rural disadvantaged communities to build self-management organizations. The Society for Eliminating rural Poverty was divided in 2014, following the Andhra Pradesh Reorganisation Act, into AP SERP for Andhra Pradesh and TG SERP, for Telangana. All SERP activities are meant to improve human development indicators and Rs. 1,00,000 as annual value of household income.<sup>99</sup>

The program aims at improving living conditions of the population through income generating activities, quality development and access to savings and credit through the "Self Help Group." SHGs have a long and important history in Andhra Pradesh; historically SHGs had a greater penetration in this State, with 1.47 million SHG, equal to 17.1 million customers in the State. THE SERP as well as other State programs have a significant presence, working directly with 9.5 million people already adhering to the SHGs.

One of the reasons why the development was so countrywide based for SERP and SHG (Self Help Groups) is the program "Total Financial inclusion", approved by the government of Andhra Pradesh in 2007. Traditionally SHGs were based on members savings , and the rules imposed lending equal to three or four times the figure contained in these booklets and what reductive loans to an amount not exceeding Rs 100,000. However, thanks to the new program, starting in 2007 it was possible to get up to Rs 500,000 for specific categories of SHGs. Moreover, many of the loans had a repayment time of five years, and the government of Andhra Pradesh would reimburse every loan with an

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<sup>99</sup> <http://www.serp.ap.gov.in/SHGAP/FrontServlet?requestType=CommonRH&actionVal=loadaboutus>

interest rate of over 3%. SERP encouraged rural population to repay lenders / local moneylenders and loans from micro-financial Institutions (MFI) rather than incurring in multiple-loans. At any rate, the dual presence of SHG and the five largest MFI has favoured the persistence of multiple sources from which people demand loans, and the average debt of a family in Andhra Pradesh is about Rs 65,000 compared to a national average of Rs 7,700 for a poor family.

Srinivasan<sup>100</sup> mentions that in 2010, according to government sources, MFIs had reached 9.7 million people, while the SHG counted in Andhra Pradesh 17.1 million people. Even though the growth of MFI was faster, taking advantage of the slowdown of loan disbursements from the government in the biennium 2008-2010. Another reason for the rapid development of the MFIs has been the low amount of loan instalments and longer repayments period for SHG-Bank linked programs. As a result, these conditions led the population to over-indebtedness so that loans in Andhra Pradesh have tripled compared to the national average.

An important research on loans in Andhra Pradesh was made by the Indian research Institute *Centre for microfinance* IFMR . The study showed that 84 % of households have more than one source of loans, including local providers / moneylenders, managing on average four loans at a time<sup>101</sup>. Researchers analysed 428 households in Kadapa (200 households) and Visakhapatnam (228 households), two districts of Andhra Pradesh. Multiple loans represented 36% of 428 households (153 households) that were visited reported taking more than one loan within two successive months in the past year.<sup>102</sup>

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<sup>100</sup> Andhra Pradesh 2010: Global Implications of the Crisis in Indian Microfinance, CGAP Focus Note, No. 67 2010

<sup>101</sup> "Access to Finance in Andhra Pradesh", page 29, [http://www.centre-for-microfinance.com/wpcontent/uploads/attachments/csy/695/CMF\\_Access\\_to\\_Finance\\_in\\_Andhra\\_Pradesh\\_2010.pdf](http://www.centre-for-microfinance.com/wpcontent/uploads/attachments/csy/695/CMF_Access_to_Finance_in_Andhra_Pradesh_2010.pdf)

<sup>102</sup> <http://www.ifmrlead.org/cmfwcontent/uploads/attachments/csy/1933/Multiple%20loans-FINAL.pdf>

### 3.7 Global Implications of Indian micro-finance crisis in 2010

The microfinance crisis hit the hub of the sector in India; Andhra Pradesh had local implications as well as global effects. Already in 2005-2006, one of the 23 administrative districts in Andhra Pradesh had faced a small microfinance crisis. Over the two-year period, 50 branches of 4 MFIs closed following allegations for coercive recovery practise (Srinivasa, 2012)<sup>103</sup>, illegal operational practices (as the removal of money from savings accounts) and too high interest rate. At that time, a code of conduct mitigated the crisis, followed by government provided support and the financial aid of the Reserve Bank of India (RBI). They recognized the important role MFI played in providing valuable financial support to low-income households in Andhra Pradesh. However, the latent antagonism between the financial model of MFIs and that of SHGs, often present in the same villages, would be at the base of a larger crisis in the sector, which occurred in 2010.

The initial public offering (initial public offering, IPO) of SKS in 2010, the largest microfinance institution in India, put in evidence the enormous the potential of economies of scale offered by the MFI financial model for financial inclusion, and at the increasingly important business opportunities together with high remuneration for industry executives<sup>104</sup>. The press, in that same period stressed the profiteering aim now clear in this document; Indian media outlets highlighted the impact of microfinance on poor households assuming there was a link with the high suicide rate in Andhra Pradesh. The government of Andhra Pradesh responded in October 2010 with the approval of “An ordinance for the protection of women involved in SHG from the exploitation of Microfinance Institutions in the State of Andhra Pradesh”. The ordinance introduced a new regulatory framework for MFIs; among the conditions imposed there were district-by-district

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<sup>103</sup> “Microfinance India: The Social Performance Report 2012”, Girija Srinivasan

<sup>104</sup> “The IPO was successful by any financial market standard: the offering was 13 times oversubscribed and attracted leading investment groups, such as Morgan Stanley, JP Morgan, and George Soros’ Quantum Fund.” *“Indian Microfinance Goes Public: The SKS Initial Public Offering”* 01/09/2010, CGAP publication.

registration, the move to monthly repayment rates of the loans, and other conditions that changed the ground-level operation of MFI. These measures caused a dramatic reduction of MFIs loan collections in Andhra Pradesh.

Because of impediments experienced in the loans collection, many MFI had difficulty in equity funding, especially from commercial sources (Srinivisan, 2012).

No longer able to raise new equity, many Institutes of Micro-finance became illiquid and insolvent. This was less evident for Institutes that had a diversified portfolio but MFIs were unable to absorb the large losses recorded in Andhra Pradesh, arresting their growth in other Indian States. Local politicians supported the environment of distrust; through populist Statements, they encouraged clients to stop repaying loans and, as consequence, there was an increase on their default rate for both MFI and SHG-Bank linked programs. The dramatic result was a decrease in credit service seen before as reliable to overcome poor households' unpredictable lives.

The Reserve Bank of India, being the regulatory authority for NBFC MFIs, has formed a subcommittee to classify MFI loans and review a wide range of microfinance issues, evaluating microfinance as priority sector lending. The Ministry of Finance emphasised the continued presence and the value of the MFI, while at the same time suggesting lower interest rates and stricter regulation for the sector. Financial markets have responded with a fall in SKS share price, whose offer to the public in July 2010 has exacerbated the issue of interest rates, always the most singled out by the press as well as by the political class. If we look at the development of sustainable financial models for the low-income population, model realized considerable progress in the last ten years. Not only in India, but also in the world of micro-credit movement has shown that it is possible to provide financial services to the poorest without the help of State subsidies. The result is that today millions of poor households have access to credit, as well as savings, insurance and money transfer services they use to more effectively manage the household finances. At the same

time, profitability affected reputation management; private gain stimulated political concerns on reputation management, searching constructive path forward.

However, one important limitation in Andhra Pradesh was the fact that products were not well differentiated, offering only microcredit. Indian MFIs that rely only on credit-only services have no deposit relationship to the MFI and thus the asset quality is particularly weak, especially when MFIs have to refinance risks in time of market stress.

The same problem occurs in all countries where microfinance is limited to the provision of micro-loans. In India, investors have focused on the rapid growth of the country and on incentives for rapid market expansion. The top managers forwarded these incentives to MFIs through middle management and from them to the ground-operation level. The economic power of top manager and governments should avoid cascading incentives for an industry whose existence depends on doing well by serving poor people.

The growth of responsible finance agenda will guarantee transparency about interest rates charged to clients. Nevertheless, before the crisis, in 2009 the MFIs invested in a credit bureau, to help MFIs lend more responsibly and households not to fall in over-indebtedness. *MicroFinance Transparency* is an international non-governmental organization that promotes transparency by facilitating microfinance pricing disclosure, offering policy advisory services and developing training and education materials for all market stakeholders. MFTransparency represents an industry movement toward responsible pricing practices.<sup>105</sup>

The granting of money and the volumes of the collection are often the basis for field incentives, with insufficient incentives for deepening the MFI relationships with clients. Ten years ago, the central preoccupation of the microfinance industry was the search for sustainable models while today, developments in Andhra Pradesh shined the spotlight on high growth rates and fast

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<sup>105</sup> <http://www.mftransparency.org/>

expansion. Even though growth that goes beyond the internal controls of financial service providers made Indian MFIs more vulnerable to inadequate technology.

## 4. ARBOR CHARITABLE FOUNDATION

### 4.1 Arbor Founding principles

Arbor Charitable foundation began his activity in 2005 in the region of Andhra Pradesh with the desire to loosen and subtract from the noose of poverty local population. Arbor foundation in Switzerland, which support other humanitarian projects in developing countries, finances Arbor Charitable Foundation. The Arbor vision of development involves a spiritual, cultural and educational pathway to restore human dignity, wherever is violated. Arbor development collects the philosophical reflections of Raimon Panikkar who was the first president of the Foundation<sup>106</sup>; the direct influence of Raimon Panikkar is clear in the dual objective of the intercultural and interreligious dialogue. However, dialogue could no be intended as a purely philosophical thought; Pannikar affirmed in one interview that “it’s an affront to speak of dialogue if the conditions of equality are absent, if somebody is starving and has been deprived of all human dignity. If we regarded other cultures as equal, we would no longer consider the ‘modern’ criterion as a necessary condition to create lasting peace for humanity.”<sup>107</sup>

In India Arbor obtained registration from the Ministry of Home Affairs in 2007<sup>117</sup>, then in 2011 it was registered under the Foreign Contribution (Regulation) Act (FCRA), 2010, so that the Foundation can receive freely donations<sup>108</sup>

The microcredit program has involved villages in neighboring areas well defined and reachable by Arbor staff, mainly composed of Christian sisters from various congregations and field partnering groups gathered in 4 sub-centers; every sub-center manages the villages involved with animators

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<sup>106</sup> Domenico Piovesana succeeded Panikkar after his death in 2010.

<sup>107</sup> Font Carmen , The new innocence --Interview with Raimon Panikkar, From the October 1996 issue of Share International.

<sup>108</sup> [http://mha.nic.in/sites/upload\\_files/mha/files/FC-RegulationAct-2010-C.pdf](http://mha.nic.in/sites/upload_files/mha/files/FC-RegulationAct-2010-C.pdf)

based in each village. The program, which is about to celebrate a decade of activity, has expanded over the years both in terms of spatial extent and objective reached. Arbor intends to promote self-sufficiency in the villages involved in Khammam district, is not only based on income generating activities raised through the microcredit program, but aims at improving sanitation, housing, health and education of women.

According to Arbor project manager Luca Streri, the center of Warangal was closed because the of the excessive expansion of financial operations resulted suspected by the governmental authorities, which decided to tax the diocese, and the Banking institutions, who imposed the restitution of saving to women organised in groups of mutual assistance. Arbor has tried to avoid the closure of the program, setting up a system of rotating savings, as the chit found model, but the increase in the number of groups in both districts, Warangal and Khammam, required cost and capacity management unsustainable by the staff. Finally the board has decided to close the center concentrating in a single district, that of Khammam.

The objective is not to import development with its western definitions but giving importance to native resources and local culture. As Panikkar, the mentor of Arbor program said

*“Not a redistribution understood as ‘we, the rich countries send food and build our houses in the poor undeveloped countries’, but an equal distribution of these resources in each country. This implies that we have to grow, for instance, crops from that particular country and build houses with native materials. To proceed like this may imply an effort, but it is not an utopian dream. I think that now we do not eat food but ‘kilometers’! We generally don’t consume what grows in our countries, we import so much from other countries”.*<sup>109</sup>

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<sup>109</sup> C. Font, The new innocence --Interview with Raimon Panikkar, Share International, Archive, From the October 1996 issue of Share International.

The final aim of each Arbor program is the creation of an organizational structure capable of manage themselves and guide operations in the end. Only in this way can to focus on the real causes of the situation of local poverty and eradicate poverty's root. Arbor wants to exclude from its approach any occasional basis, in favor of a form of aid for sustainable and extended autonomy from wich benefit those in distress, using the resources of their environment and culture. Specialized local cadres become the first agents of their communities' transformation. Members of the groups follow a training period of one year, during which the staff works with them for capacity building; the process start with different subjects taught through unformal education

The presence of different projects is required for an effective fight against poverty and functional to the success of the microfinance program: relieving the poor from extreme needs and helping beneficiaries in dealing with the daily needs, Arbor staff build trust relationship with them.

From July 2014, Arbor Charitable Foundation has started a partnership with ACWW (Association of Country Women of the World) for development of tribal women in Khammam district.



Fig. Women gathered in Arbor meetings

#### **4.1.2 Arbor activity Report**

Arbor program is organised around monthly topic, with in the table below I have underlined the month of my stay (October, November and December). The animator has to fill out a daily activity report with details on the location, number of participants, the objective explained and more general observation about people's emerging problems.

Figure 9. Arbor activity plan

MONTH	ACTIVITY	DETAILS	NOTES
AUGUST	HOUSE VISITS/FIELD VISITS	Rapports and reinforcing relationships	<b>Special sharing of people everyday life</b>
SEPTEMBER	FAMILY MEETING	Involving the husbands to play their role for a dignified, meaningful and proper family life	<b>Games, discussions and sharing.</b>
OCTOBER	HEALTH MONTH	Prevention of illness, tb, malaria, infections	<b>Herbal solutions</b>
NOVEMBER	LEADERS TRAINING	Role of leaders, guidelines for the groups, motivation	<b>Motivation, responsabilization, games, ask for action, resource persons</b>
DECEMBER	SPIRITUAL AWARENESS	Praying and sharing love among people, religions and castes. Christmas celebration.	
JANUARY	COMMUNITY PROGRAMS	Group activities, cooperative work, people collaboration for the community, govt plans	<b>Water, tailoring, blind, handicapped chld. etc.</b>

Source: Arbor Charitable Foundation

## 4.2 Arbor structure: a Top-down social development approach

There are two main approaches in social development programs<sup>110</sup>: one is the bottom-up model, which put beneficiaries at the centre of the strategy; the bottom-up model strategy will include comprehensive community participation, motivating local communities and expanding learning opportunities. This model is heartfel in exogenous sources, considering external actors the only driving force of social development. In the bottom-up model the progress is reached through a set of available elements, beginning with the primitive elements provided by the implementation language and ending when the desired outcome is reached. At each stage the available elements collaborate to the construction of new elements that are more powerful in the context of the required program. These new elements will in turn be employed at the next stage in the construction of still more powerful elements, and so on until the available elements can be employed directly in the construction of the desired program.<sup>111</sup>

Critics of this model move from the assumption that top-down strategy rapresents external sources as well as exogenous interests; in particular, the outcome would be wealth implementation for those who are already rich and live in developed countries. Moreover, critics pointed at different social structure. For instance, top-down development theorists has been accused of being a manipulating tool in the hand of the State, focusing on the importance of State subsidies to development program; others claimed that this approach was prone to the private firms, which at their turn benefited from State's subsidies. Gugler then criticises strong political parties, corrupted by army and elite (Gugler,

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<sup>110</sup> A Comparison of Top-down and Bottom-up Community Development Interventions in Rural Mexico: Practical and Theoretical Implications for Community Development Programs, Christopher R. Larrison, Ph.D., University of Georgia, 1999

<sup>111</sup> JOHN DAINITH. "bottom-up development." A Dictionary of Computing. 2004. *Encyclopedia.com*. (March 14, 2015).

1982) because they apparently use top-down approach to manipulate the poor and have political re-election. It is not only politics who felt under accusation: Sandbrook raged against trade union because they take care only of the “labour aristocracy” , once they have been built-in into the system (Sandbrook, 1982).

The second approach, which was until the 80s’ the prevailing one, conceives the social development as led by professional leaders and external resources that plan, implement, and evaluate development program (Macdonald, 1995). Social Development will occur only with active participation of local actors, being them essential in defining projects and obtaining results. Training activities would empower this people and knowledge would boost their independence from external actors.

The model required that other field researchers, with different scientific background, will participate in the project cycle, from the design to the monitoring activities. For instance, If we look at the administrative history of the World Bank, the first anthropologist, Gloria Davis was hired in 1974 while Michael Cernea, the Bank’s first sociologist was hired by the rural development department in 1974. The shift was clear one decade after, when an operational manual Statement, called “Sociological Aspects of Project Appraisal” was approved.<sup>112</sup> In social research’s methodology, the Social Impact Assessment measures the social impact of a set of development activities (programs, plans, projects) which lead to social change in development countries.<sup>113</sup> SIA is a direct derivative of the Environmental Development Assessment, a methodology that serves development activities in infrastructures like trains, airports, dams, mines before; the aim is that of proving social impact on

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<sup>112</sup> However the organisational structure already included The Bank Sociological Group, which promoted an external network of colleagues for social analysis and participation.

<sup>113</sup> The definition is provided by the International Association for Impact Assessment

population, group and settlements and It has been implemented in National legislation by many countries – India<sup>114</sup>, Sri Lanka, United States and Russian Federation among them.

There is an increasingly concern that non-expert and local people could eventually participate in the design and evaluation of development program proposal ; SIA, developed through National association, is a functional tool to the research process. Moreover some SIA provide an additional role in advocacy; in Queensland, Australia, SIA has been carried out by consultant who support the fight for the maintenance of Aboriginal ancestral land against mining project. Since SIA is made before the activation of the project It can provide evidence of the negative results and mitigate social impacts on local people<sup>115</sup>.

However from the 60s began the interest in sociology for a strong participative approach, which not only deplete the distance between the researcher and the object, showed by the positivists, but involves actively all the actors displayed in the context. Differently from other research methodologies, the basic aim is not to deliver first hand knowledge, but It comes consequently after the social change. The creative knowledge then acquires specific active and fickle character.

All programs implemented by Arbor Charitable Foundation India are programs focus on field experience, following the Gandhian approach of self-development through community based organizations.

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<sup>114</sup> In India the EIA has been in charge of the Ministry of Environment and Forest which has promoted the Water Act(1974), the Indian Wildlife (Protection) Act (1972), the Air (Prevention and Control of Pollution) Act (1981) and the Environment (Protection) Act (1986),Biological Diversity Act(2002).

<sup>115</sup> Franks, Daniel, Fidler, Courtney, Brereton, David, Vanclay, Frank and Clark, Phil (2009) Leading practice strategies for addressing the social impacts of resource developments Brisbane, Australia: Centre for Social Responsibility in Mining, Sustainable Minerals Institute, The University of Queensland & Department of Employment, Economic Development and Innovation, Queensland Government.

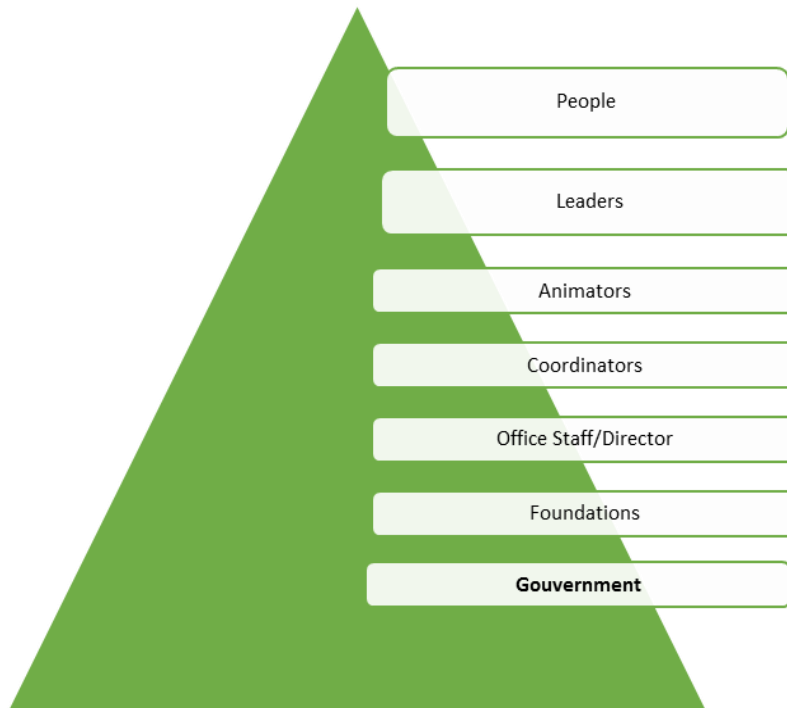


Figure 10.Arbor model

Arbor disposes a set of inspiring principles to establish transparency in the program; those principles are part of the capability approach Arbor intends to promote; from 80's on, following the failures of mainstream policies based on basically top level decision making, top-down analysis spread for development program and the beneficiaries' involvement became to be essential to the development programs efficacy.

Principle to achieve goal:

- **Constant communication:** The work status and problems are araised in every team meeting. Even the discussions aren't always organized and can leave team members uncertain about what they should be doing, face-to-face meeting with each team member has guaranteed the program's success over the decade of activity.

- Clear Targets-rules-goals: asking each one about their assignment. When it's due at sub-centres level. Each sub-centre has a register to fill out with repayments rates and advance instalments for which group leaders have to sign.
- Providing constant feedback : while communication is managed by individuals, each person has a different manner/tool to communicate, feedback is an agreed way to communicate through the reports. At the same time there are still “proper channel, proper time, proper manner” as the Director Sr Daisy claimed during one meeting.
- Staff Assistance : building effective working relationships while reducing team members' role ambiguity.
- Constant motivation: It is important to strengthen team member motivation in order to achieve team goals and objectives. Individual characteristics (e.g. team member motivation) can also be the reason for a particular role in the organisation.
- Responsabilization: It is used to empower team members to accomplish specific tasks without external help.

Development strategies at the local level are defined with the local representatives, village leaders and representatives of each caste and religion are involved in the process. The self-help groups and community forums are the basis of every initiative and are always conducted with the local population and in observance of the customs and traditions including Indian tribal.

Arbor staff working in every village is selected solely between the resident population in the area and the choice must be approved by the whole community. The self-help groups and meetings with EU are the basis of every initiative and are always conducted in collaboration with local and in cooperation with the customs and respect for the traditions, values and indigenous beliefs.

The aim pursued by the staff of Arbor is to participate actively in public and get in touch with other programs and local organizations. If possible, Arbor is a catalyst for the use of subsidies provided

by the State, to root out corruption, and ensuring that the officers of the district are aware of the progress of the development program.

#### **4.2.1 Multipurpose Animators**

Animators role is to rise women's motivation in the villages . When the program involves a new village, the animator should select the very poor and motivate them to join the program. The Animators monitor the creation of group, assist the selection of group leaders. Once the group is formed, animators may register the groups and manage their meetings. During the meetings animators have to teach motivational songs, and select proper location and time for the daily meetings.

The daily meeting are the core of the development strategy, because the animators are called to implement training program, saving program and they have to provide health and hygiene education and If possible they identify Tuberculosis patients and send them to mobile clinic. They try to integrate sick people in the community with a specific sensibilisation to the destitutes.

In the microcredit program, village animators have to estimate the necessities of the poor, they help the start-up and follow-up of micro activities; they teach how to keep the books and are essential to the good functioning of all the program.

#### **4.2.3 Coordinators duties**

Coordinators have to identify animators and motivate them, giving instructions about animators daily reports. Coordinators have to register the groups to the government and keep the records of all the activities; they monitor the collective work and the evolutions and they go regularly in the villages to report the collective work and the main issues are the discussed monthly at the board

meeting. Coordinators registers groups to the government and contribute with new ideas to the program implementation.

#### **4.2.4 Village meeting procedures**

Arbor meetings take place on a daily basis in the villages of the Khammam district. They have a consolidated structure: the meeting begins with Arbor hymn, a motivational song that all the groups sings to celebrate the beginning of the meeting; animators in each village agree with the groups about the position of group leaders, in order to be visible during the meeting the should stand back or in front of the others. Afterwards, the animators count group members and ask to each group about the absents; they try to understand the reasons, even because animators should be informed about relevant events in the village (deaths, orphans, destitutes, accident, ecc.)

Monthly, animators assess topic dissemination verifying If the topic has been internalised in terms of individual awareness. Women are demanded to register impressions and results. Every month animators check the attendances, collect savings, repayments and eventually distribute advances of the loan. The animators should inform coordinators about the defaulters and any relevant problem. During my stay in Khammam, one day we went with animators, the coordinator of the area and the director to house visits because in one village, which was in Enkuru area, animators registered many defaulters. When we went in the village at sunset, nobody showed up or answered when we knocked at their doors; after asking to passers-by we found out a women's husband who was visibly drunk. The man justified the default by saying that it was due to health problems and rose his voice to pray to cancel the debt owed; we went back, without obtaining any results. In this case, sr. Diasy, Local director of the microcredit program commented, "It is not animator's faults, if we go in the evenings, and they are fully drunk; one of the nearest area programs, coordinators and animators are working hardly, but they have not succeeded. Now they have started fewer groups. As the local

director, Sr Daisy affirmed, “We try, not for success, but commitment is this, you do it not because of success”.

### **4.3 Microcredit program**

The main program of the Program Arbor India is the microfinance program, which allows the disbursement of a loan designed to finance an income generating activity. The participation in the "micro-credit" program is free and Arbor delivers the credit amount in a progressive way, through credit advances without charging any interest.

The training program guides group members to financial awareness, while microsaving program- that start the previous year of the loan disbursement-works as alternative form of collateral. The training program is based on a set on common values, interests and principles, summed up by the following provision: each member involved will acknowledge that the money has its own dignity and that serves as a means of transformation for future projects useful to communities.

The micro-savings program aims at conveying the long-term value of the savings for use in income generating activities. The system relies on the spontaneous aggregation of women’s groups in rural Telangana.

Each member is the guarantor for the group; this element boosts the mechanisms of trust that strengthen the group solidarity. Through agreements with local Banks, nominally Indian Overseas Bank, Naidupet Branch of Khammam (Telangana), Arbor obtained current accounts with minimal service fees, and high interest rates on their micro-savings.

Small activities that the project raises or supports can be individual or group-based, even if the subjects involved in the survey declared only individual/family activity. The financial assistance program includes also a form of insurance. The Micro-insurance program is the result of a

collaboration with a leading insurance company with a small an annual fee of around US \$ 3 that protect people from natural disasters, illness, loss of livestock and the house's destruction .

Arbor grants 80% of its aid to groups of women and the remaining 20% of men, after the evaluation of each project. Each self-help group of (SHG) has two group leaders: they collect savings and loan installments, and prevail during the advance-day meeting, when the groups from different village gather in one place and receive a loan installment. The villages are grouped within a 15 Km area and every village refers to two animators and one area coordinator, which manages all the villages in the area.

Also within villages there is a development executive committee that is not limited to microcredit, but concerns all the activities in the Arbor program (construction, health, education), made up of 15 members representing the village; each village sends two delegates that became part of the Arbor Local Advisory Committee.

With regard to the microcredit program, in 2014 Arbor Community has gathered 126 rural villages, 522 groups and 6061 people in 14 mandals<sup>116</sup> of the State of Telangana. The number of field partnering groups actually is 16 with a total local staff of 58 members. The Arbor Community Rural Development Program is made effective by sub-centers and branch-offices located in the region. Active participation in the program is required not only for the staff, but also for the beneficiaries that are involved in the life of the Foundation through general meetings and some special celebrations<sup>117</sup>, triggering a mechanism of bottom-up community development.

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<sup>116</sup> Mandals, which are known as tehsils in most of India, are the second layer of the local administration, above the gram panchayats and below the districts. Mandals in Andhra Pradesh are smaller than equivalent tehsils elsewhere in India. According to the Census 2011 there were 1125 mandals in the 23 districts of Andhra Pradesh, i.e. each mandal comprises just above 75,000 people.

<sup>117</sup> Arbor involves local people in different ways and in some cases; Arbor Staff looks forward the celebration of important events. For instance, I have experienced the organisation of DIWALI festival of lights, the 12<sup>th</sup> of November 2014 and Christmas celebration. This attitude may be due in part to religious feeling particularly present in Indian culture; however, the foundation is certainly successful in its attempt to spread a feeling of unity among the program members.

In India Arbor obtained registration from the Ministry of Home Affairs in 2007, when the microcredit program started to provide loans. Then in 2011 felt within the scope of the Foreign Contribution (Regulation) Act (FCRA), 2010, so that the Foundation can raise funds from foreign donors.<sup>118</sup>

Arbor activity finance also professional training in Khammam, supporting women in the villages to emancipate themselves through group activities and cooperative work. On a practical level, Arbor staff disseminate information about legal requirements to launch cooperatives, trying to establish vocational training activities. Arbor has financed four textile cooperatives: Karunayama Welfare Society in Khammam, Arbor Centre for Training Tailoring in Yerrupalem, Arbor Self employment tailoring center in Warangal and Arbor center For Training in Sarapaka. In the cooperative I visisted in Khammam, called the Arbor Centre For Training actually work eleven girls, and working hours observed is 8 hours per day, with one hour for lunch, in compliance with international standards of production. Moreover, there is a dairy cooperative, Pio Arbor Dairy Farm, based in Karunagiri, a tiny village in the Khammam area.

In addition to cooperatives, Arbor financed an ayurvedic laboratory (Arbor Ayurvedic Organic production) that deals with the cultivation of medicinal plants and the commercialisation of products derived from self-production; the ayurvedic lab spreads knowledge about traditional medicine in the region.

Finally, Arbor finance distance adoptions through SEMI International<sup>119</sup> and the diocese of Khammam, allowing children access higher education, in addition to the construction of facilities for the reception and education of destitute, schools and hospitals.

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<sup>118</sup> [http://mha.nic.in/sites/upload\\_files/mha/files/FC-RegulationAct-2010-C.pdf](http://mha.nic.in/sites/upload_files/mha/files/FC-RegulationAct-2010-C.pdf)

<sup>119</sup> SEMI international is Non-profit making organization for community/social work. The Central Coordinator is Luca Streri, project manager of ARbor Charitable Foundation.

During my stay at the headquarters Karunagiri, in the compound of the mission of Khammam, was also active a laboratory processing of glass for the cathedral under construction. The workshop, run by two Italians, Mario Streri, vice-president and project leader of the laboratory and Roberto Santero, Roman craftsman specializing in glass processing, which has provided the kids interested in the place his professionalism and forty years experience.<sup>120</sup> All these projects allow young people to have new prospects for the future, especially for women, social activities are an important means of empowerment, being privileged women in Arbor projects.

*Figure 11. Young girls attending the glass laboratory.*



While I was at the Arbor centre of Karunagiri, all Arbor staff joined trainings days and empowerment for their leaders at cluster village level. The multiple sessions involved 1044 group leaders for the whole month in different topics, including value based leadership, interreligious dialogue and cooperation, participative growth, legal aid and motivational games.

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<sup>120</sup> The young participants of the laboratory have been selected by local staff of SEMI International Onlus, active for years in Khammam district; the selection criteria were related to the artistic talent of the participants, such as the ability to draw and reproduction of classical art, ensuring the impartiality of the decision on caste, gender and religion.

During the training, I observed at Arbor office in Karunagiri, participated a local lawyer explaining to the staff the main the legal and contractual barriers to microfinance development in the villages. The lawyer explained the legal framework in which microfinance act but also the cultural exclusion of women in some rural area as an objective to overcome through development programs; she listed the major microfinance programs provided by the gouvernement mainly because Arbor program has to consider all the obligations women have in their daily lives.

*Figure 12. Motivational game for leaders training.*



Arbor community lives and encourages the sharing of faith, religious communion and spirituality among all creeds and cultures through their leaders and community guides.

The area coordinators have the initial task to involve and train the population. Local staff has the responsibility to launch the program and organise voluntary groups promoting team spirit and the logic of the collaboration. The form of association remains the real strength of microcredit program.

Inside the spontaneously organized groups, all members participate in villages independently and democratically to elect two leaders, appointed by the social community to manage the right and continual participation of members.

Group leaders start at Arbor training at the local headquarters for a period of one month, where they get the certification and learn basic skills needed to lead groups in their area.

All group leaders of each village gathered at the meeting shall appoint their board that consists of 15 members under the local authority of the chief village who one entered in the board, becomes active part of the project in the area under its rule.

Arbor Staff decide to involve a new village only after the voluntary request of the people involved, in order to comply with the principle of cooperation for growth or community capability approach; policies and pathways to development might be suitable to local conditions.

The task is to provide the basis for a development that comes from below and uses the income-generating capacity of the poor in respect of their culture and their principles, without altering in any way their traditions and their beliefs.

Area coordinators prepare daily meetings that are held in the villages to train groups and to provide them unformal courses on particular subject for instance health, women empowerment, savings .

For a one-year period professional, group leaders and external teachers appointed to this task, work together to form the group and to create the necessary financial awareness in order to receive the micro credit.

Group leaders have the active role of understanding the main problems of the members in their daily lives at this stage, and in most cases contribute to elaborate topics for discussion. The loan is granted to the group and never to a single person; it begins with the half the amount requested by the group behind the efforts of the first beneficiaries to repay loans to set aside money to fund half

that has not benefited from the loan. This system will be perpetuated in rotary manner for the entire life of the group. It usually begins with shares of credit and savings combined, in which the return of principal and interest agreed by the group combines the payment and the provision of a small amount of the profits generated by each subject. This fund aims to finance future projects of the group as the underwriting of insurance funds or the construction of infrastructure works for the community.

Capacity building is created by enhancing the abilities existing within each human being, so that the beneficiaries, led the research by the staff Arbor, are themselves able to emerge from their condition of poverty and achieve sustainable results.

“Capacity building” was associated to International development during the 1990s, following the new emphasis given to the concept of new emphasis on the idea of sustainable development. UNDP (United Nation Development Programs) defined capacity-building approach in a five-step process:

- 1) Engage stakeholders on capacity development: involvemnet in the process of all affected in the situation through transparency in outcomes and sustainability proofs.
- 2) Assess capacity needs and assets: monitor which area needs additional training or priotize objectives in the light of pre-existing conditions
- 3) Elaborate a capacity development response: Leadership, framework and participation are important to formulate a proper response.
- 4) Implement capacity development response: experience visible change with a continual reassessment made possible by a range of indicators for expected changes.

5) Analyse capacity development: the assessment should focus on four issues: institutional arrangements, leadership, knowledge and accountability<sup>121</sup>

In the 2008-2013 UNDP “strategic plan for development”, is written that “UNDP should focus on delivering effectively in the development-related areas, in particular with a view to eradicating poverty through development, equitable and sustained economic growth and capacity building”<sup>122</sup>;

The constant pursuit of this capacity building is clear in leaders’ training meeting, and in particular, for animators who work under the supervision of the coordinator of the area. During training meeting, Arbor board select animators within the sub-areas, among women who received at least primary education. They should have good communication skills and a particular attitude to sing and dance.

As we saw earlier, in microfinance women are the preferred, but not exclusive, target, of most MFIs because they show more seriousness towards their commitments and more attachment to the family, being the redistribution channels of the benefits received by the program. Women are supposed to involve their community in three ways: 1) communication with their husbands first, then 2) children involvement and 3) intervention in public life, reaching potentially the entire village.

Illiterate women indeed, can carve out a degree of independence from husbands and children and reach greater economic autonomy.

The development project allow young people to have new prospects for the future, and for women are an important means of emancipation, considering the project attempts to privilege women participation.

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<sup>121</sup> Annual session 2008 16 to 27 June 2008, Geneva, Item 9 of the provisional agenda UNDP strategic plan, 2008-2011, , available for on-line consultation at <http://web.undp.org/execbrd/pdf/dp07-43Rev1.pdf>.

<sup>122</sup> Annual session 2008 16 to 27 June 2008, Genev, Item 9 of the provisional agenda UNDP strategic plan, 2008-2011

The purpose of Arbor Charitable Foundation is to contribute to the eradication of poverty in all its aspects and to act in a sustainable way for the preservation of human dignity and individual development from below. The centers are located in different mandals of Khammam districts in Telagana and local Arbor staff meet regularly at the headquarters in Karunagiri (Khammam Mandal). Arbor Charitable foundation reflect the management principles laid down in the Arbor Foundation Statute: to operate in full compliance of all cultures and religions, knowing that only a mutual and equitable exchange generates a dialogue based on human dignity and of culture equality<sup>123</sup>.

Arbor staff perform the development activities of the program always after the careful listening to the local population needs, carefully listening to the request of the people involved. This in order to observe another important principle that is cooperation.

Arbor considers as major and irreplaceable human values to be respected the preservation of culture, local traditions and religious faiths as well as individual responsibility.

Arbor India is a medium through which seemingly very different realities are exposed to each other, creating a circular flow and simultaneously a virtuous cycle, which facilitates the intercultural exchange, inter-religious and humanitarian relations from which everyone can benefit. My survey will try in the next chapter, to show whether the programs offered until now by Arbor India to people from different background proves their journey of a better life.

As evidence of the connection between the different programs, meetings of groups receiving micro-credit often become the occasion for debating present requests to other programs. During the village visits, building new bathrooms was an issue often raised by women in the meetings, as it is

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<sup>123</sup> "Ogni uomo vive in una cultura più o meno chiusa, ma con la consapevolezza che esistono altri uomini che hanno un'altra concezione della vita. Una reazione naturale, come ci insegna la storia, è l'auto affermazione a scapito dell'altro definito barbaro, selvaggio, pagano, infedele, non credente, goy, khafir, mleccha e via dicendo. Lentamente si scoprono anche i valori dell'altro, ma per lo più con i parametri della propria cultura." Raimon Panikkar, " *Pace e Interculturalità*", pg. 255.

perceived more and more as a social emergency; not only for the hygienic conditions but also for personal safety of women who have set apart in the dark and become easy prey to harassment and attacks by animals. On a meeting in a very poor village near the city of Eankur, a group of women guided me inside the houses; I could try with my own eyes that none of them lacks shelter, water and sanitation. Only subsequently, they told me openly that my tour was a call for help for the construction of toilets in the village. Another time women have accompanied me in the house of a poor man; they showed me a box of fruit hanged to ropes from the ceiling that served as a cradle for his daughter. Unfortunately, in this case, the final aim was to ask a cash offer. Arbor tries to fight its own against this stereotype, whenever they consider westerners as a pantry of monetary aid.

Arbor took inspiration from the Gandhian principle of economy of swadeshi, which was applied to the Indian independence movement, to assume the value of local products instead of those imported at unequal conditions by the British Empire:

*“A country remains poor in wealth, both materially and intellectually, if it does not develop its handicrafts and its industries and lives a lazy parasitic life by importing all the manufactured articles from outside. There was a time when we manufactured almost all we wanted. The process is now reversed, and we are dependent upon the outside world for most manufactured goods. The past year brought forth a remarkable awakening of the Swadeshi spirit. It has therefore become necessary to define Swadeshi goods. But in giving a definition care had to be taken not to make the definition so narrow as to make manufacture all but impossible or so wide as to become farcical and Swadeshi only in name. We do not want to follow the frog-in-the-well policy, nor in seeming to be international, lose our roots. We cannot be international, if we lose our individuality, i. e., nationality.”*

*Young India, 20-8-1931<sup>124</sup>*

The terme comes from Sanskrit, being a *sandhi* or conjunction of two Sanskrit words. *Swa* means "self" or "own" and *desh* means country, so *Swadesh* would be "own country", and *Swadeshi* is the adjectival form, would mean "of one's own country". Historically has been translated as developing

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<sup>124</sup> Young India was a weekly journal in English published by Mohandas Karamchand Gandhi from 1919 to 1932. Gandhi wrote used Young India to develop his unique ideology regarding the use of nonviolence in organizing movements; he wanted to urge readers to consider, organize, and plan for India's eventual independence from Britain.

local self-centered independence but the meaning also implies the fulfillment of personal duty (swadharma) within the community of which the individual is part, by merging its own values and beliefs (shraddha) in shared ethics which allows to reach the common goal of swaraj, self-government.

The Swadeshi movement changed his objectives after Indian independence; before Indian Independence Act of 1947 the movement was basically a response to colonial policies, in the post-second world war the movement served against oppressive imperialistic policies indeed. The desire to compete with the industrialised economy while preserving old fabric of agrarian country brought a resurgent swadeshi movement for self-sufficient India through agrarian set-up.

Arbor approach follows therefore also the consumption and use of local goods, materials and local staff, the preference for the use of resources readily available on the site and production adequate to the actual needs of the community.

#### **4.3.1 Rules and regulations**

Credit and saving account: every coordinator has a set of rules to follow in their daily activities. About new groups, every coordinator must inform the direction to intention to start new groups in advance. Every subcentre should work in villages in a range of max 15 km because they have to monitor each applicant and verify that she is honest and she takes part in development activities. The coordinator has to keep the books updated, filled in blank entries during every meeting, and kept in a safe place. In all saving and credit accounts must be personal photo, personal data, totals, cumulative colons, signatures avoiding errors and cancellations.

Meeting regulations: the meeting generally start with the Arbor motivational song, taught by animators in each village and Arbor board provides a book of Arbor songs to every staff member.

Leaders must participate actively to every meeting. In addition to the activity filled every day by every Arbor staff member; a consolidation report has to be submitted to the local coordinator monthly. The consolidation report reports relevant topic and all specific issue mentioned in the meetings.

#### **4.4 Structural programs**

The housing program allocate resources for infrastructure to families living below the poverty line; It provides support to the specific government program INDIRAMMA (Integrated Novel Development in Aural Areas & Model Municipal Areas), in order to provide them with accommodation in bricks and cement to families living in semi permanent and temporary houses as target group. The huts constituted with branches, plastic and mud. The ultimate aim of the program is to saturate basic needs in the villages/town selected in a 3 years period, thus ensuring overall development without discrimination in program's coverage. The program provide not only housed but drinking water supply, individual sanitary latrines, drainage and power supply, road facilities and primary education for all. In particular, as regards the housing program, INDIRAMMA follows the progress of construction by providing three installments covering respectively the construction of the foundations, the walls and finally the roof of the dwelling

The Chief Minister of Andhra Pradesh Dr. Y.S. Rajasekhar Reddy adopted the program in 2006 to create a novel rural/urban Andhra Pradesh through integrated development of villages and

municipalities. Afterwards the Indiramma Housing scheme had been recalled NTR Housing scheme<sup>125</sup>.

The government subsidy initially consisted in the Indiramma Housing Scheme of 20,000 rupees (about 250 EUR), payable in construction materials and in three consecutive steps: first comes the material for the foundation, then the one for the walls, and finally the material for the roof, which is the most expensive. The construction of the building was made by two small rooms, a bathroom and an open space used as a kitchen, is instead borne by the beneficiaries. In the NTR Housing scheme, taking the increased cost of construction into consideration, the government has decided to raise the financial assistance; the construction of new house under the housing scheme will from Rs.75000 to Rs.1 lakh to OCs (Other category) and from Rs. 1 lakh to Rs. 1.5 lakh to SC (scheduled castes), STs (scheduled tribes)<sup>126</sup>.

For housing, however, in the villages I found that many homes remained incomplete, especially due to the scattered nature of the distribution of the resources. Above all the roof is missing in a lot of the new infrastructures because It is the most expensive part of the structure and It is almost totally financed by the beneficiary. The absence of the roof call into question the validity of the program at least from the perspective of living conditions: INDIRAMMA involved the construction of houses made by brick and cement to replace accommodation in huts, which in addition to being deprived of adequate sanitation, are at the mercy of the bad weather, especially in the monsoon season.<sup>127</sup>.

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<sup>125</sup>“ Govt. rechristens Indiramma as NTR Housing scheme”, The Hindu, 14 Oct. 2014.

<sup>126</sup> The government subsidy is released according to castes of beneficiaries. Caste still remains a major discriminatory factor in public life and policies.

<sup>127</sup> The internal division of the building, generally divided into two rooms, a kitchen and a bathroom is entirely paid by recipients.

The inefficiency of the program is mainly due to the corruption<sup>128</sup> of local administrators that pick at their convenience from the fee to families often illiterate and unable to assert their rights. Arbor wants to develop a critical and vigilant behavior in respect of the aid they receive from the government. Arbor Staff during the meeting warns families, highlighting the power of the beneficiaries which by law is entitled to monitor the good faith of local administrators.

First of all Arbor wants mainly to inform villagers about the possibility to access government subsidies and to accompany them to submit the application, as most of the information are not disseminated making them mostly unknown, in particular in rural settings. The program is then promoted during the monthly meeting of groups; individuals who wish to benefit from It are then followed in compiling the paperwork to claim. Furthermore, since the total amount granted by the government is not enough to cover the total cost of construction of the building, Arbor deals with the necessary funds to supplement the government subsidy.

Finally, Arbor has contributed to the construction of 22 wells in Khammam district, some with manual pumps, with maintenance and management costs derisory, others with a storage tank. The weels are functional to irrigation systems for agriculture, and in a village, reverse osmosis water purifier to neutralize the high concentration of bacteria present in the local water. In Telangana there is an high dependence on ground water considering that only 14 percent of rural household use piped water schemes to drink and other domestic purpose.

The State face serious problems for bad water quality mainly because of two external factors: coastal salinity and fluoride. Coastal salinity influence the quality of water because of tanks placed

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<sup>128</sup> Corruption in India is a national problem; in 2014, India ranked 85th out of 175 countries in Transparency International's Corruption Perceptions Index, available at <https://www.transparency.org/cpi2014>

in sandy area while fluoride is the main problem in semi-arid area especially Nalgonda, Anantapur, Cuddapah, Gunter, Nellore, Chittor, and Krishna.<sup>129</sup>

Even the program of toilet construction and sewage systems sees the collaboration between the Foundation and the government, as well as beneficiaries, asked to cover part of the costs. The program makes safer water accessible to all the inhabitants of rural villages involved in Arbor programs, through a systems that reaches the courtyard of the houses or some strategic points easily reachable in each village.

Arbor sustainable development sees the access to water as a crucial factor. Drinking safe water, irrigation programs and toilets are now guaranteed to many villages thanks to Arbor ; local authorities are always encouraged to offer their contribution. In this respect, problems are related to the shortage and contamination of water, first of all causing hygiene and health problems. Bad water supply affects also agriculture in terms of poor performance of the fields cultivation the and livestock in addition to an additional workload for women, forced to walk several kilometers every day to bring water to their homes, often with supported by the children who are forced to suspend their studies.

Fluoride and nitrate contamination in ground water are the two major concerns in Andhra Pradesh and overuse of complex fertilizers by famers with wrong disposal of waste water from the fields has led daily increase in nitrate pollution wich causes fluorosis and serious deseases. Dr Arjun L Khandare, deputy director, National Institute of Nutrition during an interview for The Time of India assumed "The water is too dangerous to drink. Up to 2 mg per litre of fluoride content leads to

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<sup>129</sup> Water and Sustainable Rural Livelihoods in Andhra Pradesh: Background paper A. J. James Environmental & Natural Resource Economist, New Delhi, and Elizabeth Robinson, India Natural Resources Institute, University of Greenwich, UK.

dental fluorosis. Depending on the length of the exposure, it affects different tissues in the human body affecting teeth, bones, making them brittle and also causing ageing<sup>130</sup>".

#### **4.5 Health program**

Arbor integrated development involve also a health program that has been implemented over the years and now reaches all the villages with mobile medical clinics and medical staffs including doctors, paramedics, holistic and ayurvedic specialists.

The major diseases of the area are Tuberculosis, Malaria, HIV/AIDS; Arbor staff treats all the endemic sicknesses after a proper scrutiny and identification. Moreover medicines and vitamins integrations are provided free of cost at the village level.

With regard to the health programme, selected separate staff is responsible of the health and hygiene awareness as well as the prevention program for the most common diseases and infections.

During my stay in Khammam, the Foundation suspended the mobile clinics services and an survey was underway to assess the actual need of monthly visits to the villages, as a reduction of visits had been recorded in the previous months. The director of Arbor Charitable Foundation Luca Streri, believed that the validity of the program was in doubt for the progressive development of government programs on health related issues, which at that time reached all the villages in the area. What appeared different at first glance was the approach pursued by Arbor staff, in comparison with the Governative staff, because Arbor staff is more professional and well educated while the Rural Medical Practitioner doctor follow only a 3-months training before being employed.

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<sup>130</sup> Bushra Baseerat, "Andhra ground water too dangerous to drink", Times of India, 13<sup>th</sup> April 2013.

The mobile clinics are financed by the Foundation, along with the diocese , are composed of medical and paramedical staff that once a month, according to fixed timetable, go to one of the villages where the program is active for visiting patients who come voluntarily . The attending physician may prescribe recipes and medicines; then the medicine are purchased directly at the mobile clinics at subsidized prices.

Also during the monthly meetings of women in the villages, the staff has the opportunity to discuss and raise awareness among women on the preservation of traditional treatments.

Sometimes during the staff training meeting are invited health professionals, experts in the fieldwork, who drive coordinators and animators in the preparation of some remedies and cures to common diseases and common ailments, so that they can then disseminate knowledge to the members of the groups in the villages of the area. Moreover comprised in training activities, are taught practice of first-aid techniques

Meanwhile, despite the absence of Arbor contribution<sup>131</sup>, the mobile medical clinics continues to visit patients in the villages, even if this causes in a reduction of available medicines. As learned from the on-site staff of the field, it is necessary that the work must continue even if the presence of the Rural Medical Practitioner doctor as well as government programs for medical care now reaches villages further away from hospitals in the district. In particular, by the staff of the medical field Arbor showed the ease with which occurs the prescription of medicines without a prior diagnosis. Although many deadly diseases, excessive abuse of allopathic treatment for minor illnesses is not a response to the lack of health facilities on site. A medical center Ayurvedic local diocese of Khammam.

The advantage of the Arbor program was to be able to provide next to allopathic treatment, the traditional Ayurvedic medicine, with the intent to preserve Indian cultural identity. The Ayurvedic

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<sup>131</sup> The doctor and the nurse of the medical field are employed by the diocese of Khammam while Arbor provides an animator of the program, according to the different area of the visit.

medicines distributed by the mobile camp are partly produced directly by the laboratory created thanks to the funds of Arbor Charitable Foundation India. The Ayurvedic doctor once told me “we are here not to make profit, half for helping the poor and half to develop other activities for the community”; the Ayurvedic laboratory has recently introduced a pilot offering medicines with the expertise of a doctor coming from Kerala.

#### **4.6 Promoting education for Community development**

Arbor is active in the support of children and youth in India through a partnership with SEMI. Education is one of the characterising aspects of the program Arbor because it reaches and involves more people, from the staff through professional training to children education promoted through SEMI international. Literacy level and educational outcomes are essential indicators of development in a society; actually, Universal primary education is considered a Millennium Development Goal to be reached by 2015. The literacy rate affects other variables as life expectancy, infant mortality and malnutrition of children.

In the rural villages, the action is conveyed through the Village Development Committee created by Arbor in every community. It is responsible for program planning and education objectives to reach inside the community; the Village Development Committee receives suggestions from the Education Committee formed by the representatives of every village. Special support is delivered to orphans, abandoned street children, handicapped and little slaves of labor who are rescued in the villages, railway stations and in marginalized areas by the field staff and accompanied in the structures made for them.

SEMI is working at local level and at diplomatic stage to facilitate and implement the construction of dedicated structures in the villages such as schools, hostels. When it is considered necessary SEMI

provides the needed financial resources to create ad-hoc structures and to organize their management and full sustainability.

Sponsorships and scholarships are granted for poor students, orphans and scheduled casts and tribal children. Health, education, hospitality and professional training are provided at all the children inserted in the program that is taking care of them until their complete inclusion in the adult society.

#### **4.7 About micro-insurance**

The insurance industry is hardly present in the villages of the sample. The program Arbor offers a micro-insurance, which has been a huge success and also from the staff, the micro-insurance is not presented as an essential part of the program. Women have rather signed the insurance provided by the government program DWCRA, especially for the presence of a private pension and to receive important figures in the case of family deaths, unfortunately quite frequent in the reports of the interviewees. Paradoxically is not perceived as urgent, health insurance, although women in the case of serious illnesses are forced to borrow enormous health cost.

India has had a long commitment in maintaining public safety nets. For instance in the State of Marahastra, local government assign a low wage job for anyone able-bodied who submit the Job demand. The scheme has been employes especially for seasonal workers, who have to patch together incomes during difficult seasons when work is unavailable. Other insurance schemes have been subsidized by the government.

Until the break of State monopoly in 2001, insurance was the monopoly of Life Insurance Corporation (LIC) and General Insurance Corporation (GIC). At the time of my survey 2014, however, the only insurer that provides services to my respondent was LIC despite the new

legislation opened to private companies. Clients pay life insurance premium based on their age, taking back their savings after two years with profit. If they deal with an accident or a funeral in their households, clients or their heirs take the value of the matured policy.

On the subject of microinsurance, eligibility conditions for LIC<sup>132</sup> are:

- a) Minimum age at entry : 18 years (completed)
- b) Maximum age at entry : 55 years (nearest birthday)
- c) Maximum age at maturity : 65 years (nearest birthday)
- d) Policy Term : 10 to 15 years for regular premium while 5 to 10 years for single premium.
- e) Minimum Instalment Premium : Rs 60/- under monthly mode while for other modes, there is no specific minimum instalment premium.
- f) Minimum Sum Assured : Rs. 10,000/-
- g) Maximum Sum Assured : Rs. 50,000/- (Sum Assured shall be in multiples of Rs. 1,000/-)

Payments are rather flexible and clients can decide to pay once a year, every semester or monthly. Single Premium mode is available for terms from 5 to 10 years.

If clients face unexpected difficulties, the insurance agency grants a “grace period” of two calendar months is but not less than 60 days will be allowed for all modes of payments. The problem is not the annual total of the payment but the fact that the respondent has to pay a big lump sum quarter after

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<sup>132</sup> Information available at LIC official website <http://www.licIndia.in/>

quarter so clients have to borrow from elsewhere in order to meet the quarterly premium payments.<sup>133</sup>

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<sup>133</sup> See Collins & Murdoch, "Portfolio of the Poor", 2011.

## 5. TELANGANA: FROM THE EMPIRE TO INDIPENDENCE

### 5.1. Old issues for the new Telangana State

Figure 13. Telangana State in modern India



Source : <http://english.panglong.org/new-State-of-telangana-is-born-in-southern-India/>

Andhra Pradesh State was established with the gentlemen's agreement of 1 November 1956, through the unification of Andhra State with the Telugu-speaking area of the Hyderabad State and the division of Telugu speaking population of the State of Tamil Nadu. The State which was in Southeast India, accounted for 76 million inhabitants and Hyderabad was the capital of the new State.

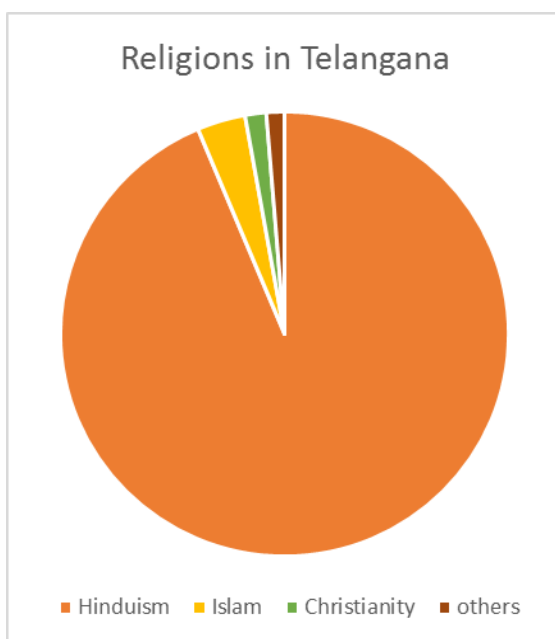
Before the Telangana secession, which occurred in February 2014, the Andhra Pradesh Reorganisation Act, 2014 bill was passed by the Parliament of India and determined the formation of Telangana State composed by ten districts of Andhra Pradesh.

Geographically, the new State of Andhra Pradesh is placed between two rivers, Krishna and Godavari with two regions, Coastal Andhra and Rayalaseema. It presents varied ecotypes ranging

from the hills of Eastern Ghats and Nallamallas to the shores of Bay of Bengal supports a rich diversity of flora and fauna

The most important religious group is that of Hinduist which accounts for 92.25% of the population, 6,9 % are Hindu while Christian are only 1,51%; the rest divided among Jains, Buddhists and other religions. In accordance with The Scheduled Castes and Scheduled Tribes Orders (Amendment) Act<sup>134</sup>, 1976 there are nearly 33 scheduled tribes in the region.

Figure 14. Religions in Telangana



Source : Census 2001<sup>135</sup>

Agriculture remains the main source of income; production of rice, mango and tobacco are the most conspicuous nation wide products

<sup>134</sup> "List of notified Scheduled Tribes". Census India. pp. 21–22. Retrieved 15 December 2013.

<sup>135</sup> The share of religious groups is referred to 2001 Census, by filtering Telangana Provinces.

Following the decision approved on July 30, the Congress of 2013, has formed the twenty-ninth Indian State of Republic of India, Telangana, accepting the independence demands of population after 30 years of secession claim from the rest of Andhra Pradesh.

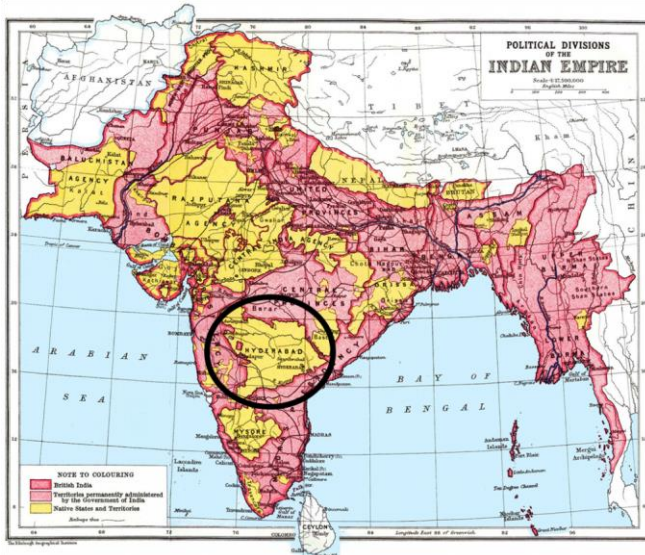
The national government has recently invested in implementation policies and specialized programs on growth and development of ITC industry around the city of Hyderabad. The State was created in 1956 by the division of Telugu speaking population from the Tamil Nadu State . The capital of Telangana will remain for a provisional period of 10 years, Hyderabad. The separation process is designed to last for the next few years, not only in terms of administrative and political organisation, but also in social terms.

The secession movement was fuelled with complaints from Telangana inhabitants, who believed that the region has long been overshadowed. Telangana becomes the 25th State of India, with a population of 35 million people, including 10 of the 23 districts in Andhra Pradesh and the present city of Hyderabad.

*Figure 15. Ancient Princely State of Hyderabad<sup>136</sup>*

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<sup>136</sup> Two important facts emerges by the mapping exercise. Firstly, the Nazim Empire excluded the coastal region but It was for the most part in the State of telangana. Secodly, being in the centre of India, due to distance to the main harbors of the country, It was less appealing for British Empire commercialition of products.



Despite having the same Telugu language, history of the coastal districts along with the District of Rayalaseema is very different to those located within the region. While the Telangana was part of the Muslim kingdom of the Nizam, the districts of Andhra Pradesh were under the direct control of the British raj. Telangana region was then historically excluded from western aid and technical progress imported from the British Empire.

Since 1766 British empire had deducted the rich coastal districts of the Mughal empire based in Hyderabad. Afterwards the nizam's power over the Telugu warriors was so weak that the State survived with the annual tribute the British paid to Hyderabad. Then in 1798 an alliance implemented the nizam's dependence who eventually expelled the French battalion. Only with Salar Jung I the diwan<sup>137</sup> of Hyderabad from 1853 to 1883 initiated a modernising administration; he imported the British Indian administrative model even if he opposed the use of English as official language in order to preserve Mughal cultural traditions. Consequently, administrators and British officials called to make their contribution to modernise the Empire, were kept aside and were not allowed to enter the old walled city where nobility and court lived. But the emperor soon understood that the infiltration of the British culture which was considered inferior was unstoppable.

Since 1890 the non-Hiderabadi infiltration in the government was dominant, whose number have doubled to 447 men in the administration. Nevertheless, at the end of the Nineteenth century Hyderabad had a bureaucracy imported from British India but isolated from both resident and nizam

<sup>137</sup>The diwan was a high governmental body in many Islamic States. from Turkish diwan, from Arabic diwan, is a Middle-Persian word meaning of Deva (divine rulers) and was borrowed into Arabic, Turkish and also at an earlier date into Armenian[1] dīvān, "bundle of written sheets, small book, collection of poems" (as in the Divan-i Hafiz), related to debir, "writer."

by a powerful diwan who was able to manage and isolate the British presence.<sup>138</sup> However the only State whose official did not recognise the supremacy of the British Empire was Hyderabad. When the viceroy of India Lytton demanded a written acknowledgement of the British Supremacy, after several drafts he obtained It, the fictitious nature of the Statement was clear not only the Indian rulers were disempowered as a result of British indirect rule but also the power of the Crown at home. In this regard the reign of Queen Victoria signed the establishment of a constitutional monarchy and the queen's position became more symbolic, especially after the Reform Act of 1832. When India became independent from the British Empire in 1947, the nizam of Hyderabad did not want to merge with the Indian Union and wanted to remain independent. The Government of India annexed Hyderabad State only on 17 September 1948 after a military operation called Operation Polo.<sup>139</sup>

In the 1960s Andhra Pradesh has seen the constitution of the Naxal militar insurgency, a left-wing Maoist-inspired insurgency, spread from Naxalbari village in the Indian State of West Bengal. The Naxal movement started when a young tribal man has received a plot of land after post-independence land reform in India but could not use that land because was attacked by militiamen of the landlords.

The system who caused the revolt was first imported in India by the British Empire continued once India became independence with the Land Reforms Act of India (1955).

In accordance with the britishers, the land was distributed among landlords who owned large plots of land, but were hardly involved in cultivation of crops and agricultural activities themselves. They

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<sup>138</sup> See C. Keen, *Princely India and the British: Political Development and the Operation of the Empire*, I.B.Tauris & Co Ltd, , 2012

<sup>139</sup> Operation Polo was a military operation in September 1948 by which the Indian Armed Forces entered the State of Hyderabad and overthrew its Nizam, and then the State became part of the Indian Union.

indeed employed a large number of coolies and tenant farmers/sharecroppers<sup>140</sup>. Afterwards the Land Reforms Act of India (1955) Stated that sharecroppers had permanent use rights on land leased out to them under certain conditions, but these rights could not be claimed if the property owner wanted to take the land back for personal cultivation. So that the Naxal movement started when a young tribal man has received a plot of land after post-independence land reform in India but could not use that land because was attacked by militiamen of the property owners.

Members of tribal population started an anti-landlord peasant uprising in 1967 which led to the foundation of two groups: Communist Party of India-Marxist-Leninist (CPIML) and the Maoist Communist Centre (MCC).

The movement spread also in other States of the country, but It was altd and pushed back when many cadres died or were conducted to prison (Kujur, 2008).<sup>141</sup> In 2010, Indian paramilitary troops and State police Officers have begun an offensive against the Maoist movement in five States, targeting especially the maoist cadres<sup>142</sup>.

Anybody suspected of being a Naxal was just tortured, irrespective of whether the person practiced violence or not. The did not care about the sex, irrespective of whether the person was male or female (females, both Naxal cadres or even innocent women, were raped in many cases multiple times and tortured by males, arrested by male policemen in many cases which today is considered a violation of fundamental rights thanks to Supreme Court strictures). The treatment was also irrespective of whether there was evidence against the person concerned or not, and irrespective of whether the person had links with Naxals or not. Many innocents, and even the cadres of CPI (M) who had split from Mazumdar-Sanyal faction and worked alone, had been arrested and tortured.

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<sup>140</sup> i.e. people who didn't own your land but who would organize agricultural activity on your land, in lieu of which he/she will get a part of the total produce)

<sup>141</sup> Kujur, Rajat. 2008. "Naxal Movement in India: A Profile." Institute of Peace and Conflict Studies, Research Paper no. 15.

<sup>142</sup> India launches Maoist offensive in five States, BBC News, January 2010.

The torture was even more extreme during the period of Emergency declared in 1975 which continued till 1977. Several activists who opposed the Emergency, be it of whichever ideology (Naxals, RSS activists, even non-violent political activists of the stable of People's Union of Civil Liberties and various others who were not part of any formal organizations) were arrested and either lost their lives or tortured so severely that they became physically disable or mentally disabled in many cases. Fundamental rights of protest and speech were thrown to the winds allegedly in the name of countering Naxalism. Once the Left government came to power in Bengal in 1977 and land reform (at least partially) was initiated as "Operation Barga" in 1978, a major grouse or reason for why Naxalism originated, was partially solved. But Naxalism was to return, if not in Bengal, then in Andhra Pradesh.

One of the major issues during the Naxal movement was that with Mazumdar gaining upper hand and forming the All India Coordination Committee of Communist Revolutionaries (AICCCR) in May 1968 along with other units of Naxals in States like Orissa (today Odisha), Bihar (includes today's Bihar and Jharkhand) and even to an extent in Punjab, some other major such groups or factions were alienated, not just those in Bengal, but also those outside Bengal, such as those in Andhra Pradesh.

The military rebellion was refuelled in the 80s, with the creation of the most important Naxal groups in Andhra Pradesh, People's War Group that eventually joined the Maoist Communist Centre of India and constituted the CPI-M (Maoist).

Naxal violence in India thus has been concentrated in Andhra Pradesh from the earliest stage in the 60s. In 2008 the PWG and CPI-M merged into Communist Party of India CPI (Maoist); their major claims are land alienation, denial of forest rights, and displacement by development projects and national parks and sanctuaries.

There are some specific pattern in regions where the Naxal insurgency is stronger: low levels of human development, absence of State institutions and rough terrain are the main ones (Borooah 2008, Government of India 2008).

These various dimensions are interconnected since areas of low human development rate may affect the capacity of the State to deliver development; those areas are usually riched of scheduled castes (SC) and scheduled tribes(ST) and a safe harbour fro rebellion movements. Although the strong rhetoric, It is clear that Nexalites look for the isolation of the population from the State (Borooah 2008, UNESCO 2011) but less transparent is the link between the acts of violence to school, roads and infrastructures and support to vulnerable groups.<sup>143</sup>An important feature of the Naxal insurgency was that, while the groups claimed to fight in particular for social groups considered the most downtrodden in the Indian society, namely the Dalits/Scheduled Castes and the tribals/Scheduled Tribes. Nevertheless, leadership of these groups came mostly from the upper class, and mostly upper caste who had in many cases left away possible lives of luxury and better lifestyle to live among the very poor and undertake mass insurrection against Indian State (Guha, 2007). Therefore, there was a substantial difference in the demography of the foot soldiers who were mostly Dalits and tribals, and the composition of the Naxals leadership. Indian State used this as a pretext to oppose Naxals aim to fight against inequality and social discrimination. Although Naxals have always rejected this stating with the claim that they support equality and have never discriminated whithin the internal organisation of the movement.

Kishore Gawande (Texas A&M) Devesh Kapur (University of Pennsylvania) Shanker Satyanath (NYU) survey on Renewable resource shocks and conflict in India's Maoist belt Maoist Belt Kish; the main finding was that adverse vegetation shocks have a robust, significant association with the

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<sup>143</sup> Borooah, Vani K. 2008. "Deprivation, Violence, and Conflict: An Analysis of Naxalite Activity in the Districts of India." *International Journal of Conflict and Violence* 2(2):317–333.

intensity of conflict. A one standard deviation decrease in the measure of renewable natural resources increases killings by 12.5% contemporaneously, 9.7% after a year and 42.2% after two years. The instrumental variables strategy allows to interpret the findings in a causal manner and thus contribute to the debate on the causal relationship between renewable resource shocks and conflict. It is due to the fact that a large proportion of the population in the Naxal belt of States is dependent on natural resources for its livelihood.

According to official Indian government data the conflict has resulted in 7862 deaths in the period 2000-2009<sup>144</sup>.

In 2004 the State government of Andhra Pradesh and the Naxal movement agreed to a period of ceasefire; It formally started on the 16<sup>th</sup> June 2004 when the two parties held peace talks after a long period of strong hostility. The ceasefire lasted nearly one year, until the 4<sup>th</sup> April 2005 when both parties returned to fighting and attacks.

From the South Asian terrorism portal SATP<sup>145</sup> It is possible to reconstruct the major events occurred in the latest years; in data sheets provided is provided the places and the number of casualties occurred between 2007-2014.

The ceasefire resulted from the election of Telengana Rashtriya Samiti (TRS) a party that won the State elections in May 2004 and attempted to install diplomatic relations with Naxal leadership (Balagopal 2005).<sup>146</sup> According to official Indian government data the conflict has resulted in 7862 deaths in the period 2000-2009<sup>147</sup>.

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<sup>144</sup> Data collated from the Annual Reports of Ministry of Home Affairs, Government of India

<sup>145</sup> The South Asia Terrorism Portal is a project launched in 2000 by the Institute of Conflict Management, based in New Delhi. SATP collates daily news and data on terrorism.

<sup>146</sup> Balagopal, K. 2005. "Naxalites in Andhra Pradesh. Have We Heard the Last of the Peace Talks?" *Economic and Political Weekly* (March 26):1323 – 1329.

<sup>147</sup> Data collated from the Annual Reports of Ministry of Home Affairs, Government of India.

After the secession, Telangana is at the center of political debate for the spread of the Maoist movement in the region. The movement of Telangana independence over the 50 years of post-independence raises with the claim that the hinterland region has been neglected by development projects if compared with the coastal line.

The Annual Reports of Ministry of Home Affairs of India 2013-2014<sup>148</sup> refers to the process of secession of Telangana and the related problems related to its autonomy, could provide fertile ground for the proliferation of the Maoist movement, and also in the city of Khammam you can see that the flags of the party Communist. Over the report, the government acknowledges the difficult situation in Andhra Pradesh, especially in the Statement “the law and order situation in Andhra Pradesh was constantly reviewed in the Ministry of Home Affairs. In the wake of the State Government Telangana provided new CAPFs (Central armed police forces) and when required for law and order duties to ensure peace in the State”.<sup>149</sup>

Probably the Maoist movement might take advantage of the vacuum created by the new conditions, using the six months preceding the election. The new State "could become an easy target, considering its proximity to the most affected districts of the area (Chhattisgarh, Bastar and Maharashtra Gadchiroli); It becomes important to emphasize that 12 of the 15 members of the Maoist Central Committee comes from the new State of Telangana. The bomb attack of Pune in February 2010, which have shown similarities to the Mumbai bombing, and the almost daily attacks by the Maoist Naxalites, are horrifying examples of the threats currently posed to the country's internal security.

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<sup>148</sup> See the website (last accessed 10/12/2014) [http://mha.nic.in/sites/upload\\_files/mha/files/AR\(E\)1314.pdf](http://mha.nic.in/sites/upload_files/mha/files/AR(E)1314.pdf)

<sup>149</sup> Among released to various States for “police training” under 13<sup>th</sup> finance commission, Andhra Pradesh granted 113.00 crore of Rupees.

## **5.2 Andhra Pradesh Reorganisation Bill**

After holding series of talks at Government levels, the Union Cabinet, in its meeting held on 03.10.2013, decided to form a separate State of Telangana by bifurcating the State of Andhra Pradesh. A Group of Ministers (GoM) was constituted under the Chairmanship of the Home Minister to finalise the modalities of this bifurcation. After the submission of the report by the GoM, the Union Cabinet, in its meeting held on December the 5<sup>th</sup> 2013 , decided to bifurcate the State of Andhra Pradesh and create a separate State of Telangana. Thereafter, a Presidential reference, under Article 3 of the Constitution, along with the Draft Bill for the re-organisation of the State of Andhra Pradesh, sent for obtaining the view of the Andhra Pradesh Legislature on December the 12<sup>th</sup> 2012. The State Legislature of Andhra Pradesh concluded their proceedings and communicated the views of both Houses of the State Legislature on January the 30<sup>th</sup> 2014. There were proposals for amendments/expression of views along with its resolutions. Thereafter, based on the modifications recommended by the GoM, Union Cabinet approved a Note on this matter. Subsequently, in a meeting held by the Union Cabinet, some more amendments were incorporated in the Andhra Pradesh Reorganisation Bill draft, 2013. Finally, both Houses of Parliament approved the Andhra Pradesh Reorganisation Bill (on 18.02.2014 by Lok Sabha and on 20.02.2014 by Rajya Sabha). The Bill obtained Presidential approval on the 1<sup>st</sup> of March 2014, paving the way for the creation of a new State of Telangana after the bifurcation from the State of Andhra Pradesh. Mr. Sushil Kumar Shinde, Minister of Internal Affairs, enacted the law for the reorganization of the State in Lok Sabha the 13<sup>th</sup> of February 2014.

The bill Stated that the Governor of the existing State of Andhra Pradesh should be the common Governor for both States for a period determined by the President<sup>150</sup>. As part of the administration of the common capital area of Hyderabad, he will be in charge of security of life, liberty and property, law and order, internal security, security of vital installations, management and allocation of government buildings.

After the secession, the Indian Parliament will count 11 seats Andhra Pradesh against the 7 for Telangana in the Rajya Sabha <sup>151</sup>, while it will have 17 in the Lok Sabha against 25 of Andhra Pradesh <sup>152</sup>. The Supreme Court will remain for both States in the city of Hyderabad, on a provisional basis, after which it will become the Supreme Court of Telangana while Andhra Pradesh will have to choose a new location for its Supreme Court.

The two successor States will divide cash equivalents on a demographic basis, thanks to an agreement with the Reserve Bank of India; the central Government will also provide assistance in the establishment of new police forces. The central government will administer the Greyhound Training Centre for three years<sup>153</sup>; afterwards, it will belong to the Telangana although the central government will help the Andhra Pradesh to be a homologue center on its territory.

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<sup>150</sup> "On and from the appointed day, the Governor of the existing State of Andhra Pradesh shall be the Governor for both the successor States of Andhra Pradesh and Telangana for such period as may be determined by the President ." art. 7, Andhra Pradesh Reorganisation bill, 2013.

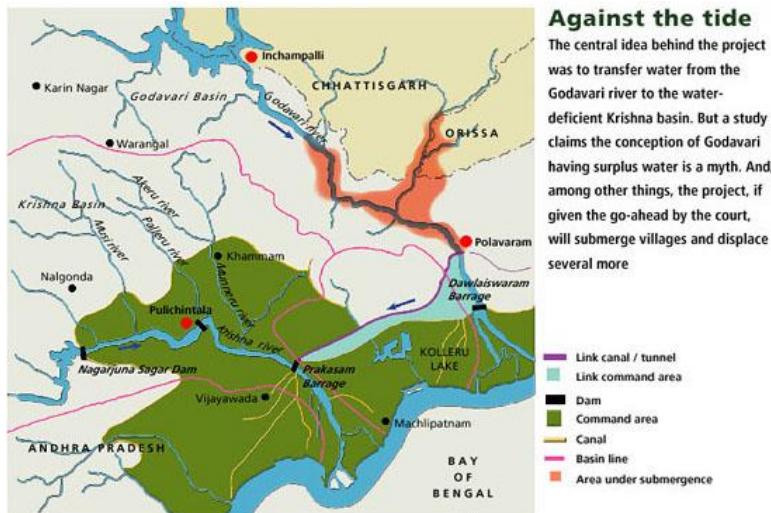
<sup>151</sup> The Rajya Sabha (in Italian: Council of States) is the upper house of the Indian Parliament. The Rajya Saba is made up of 250 members, including 12 appointed by the President of India for their expertise in specific areas, such as art, literature, science, etc. Respective parliaments of the India States elect the rest of the body (238 members), in proportion to the number of inhabitants. The house renovates 33% of its member every two years.

<sup>152</sup> The Lok Sabha (House of People) is the lower house of the Indian Parliament, and the largest parliamentary assembly in the world for number of voters. The members of the Lok Sabha are direct representatives of the Indian population as chosen directly by an electorate consisting of all adult citizens of India. The constitution provides its maximum size, equal to 552 members. A maximum of 530 represents the population of the Indian States of, a maximum of 20 represents the population of the territories of the union, and President India appoints two members the to represent the Anglo-Indian community.

<sup>153</sup>(1) *The Polavaram Irrigation Project is hereby declared to be a national project. (2) It is hereby declared that it is expedient in the public interest that the Union should take under its control the regulation and development of the*

As concerne Polavaram<sup>154</sup> irrigation project, the central government will complete the irrigation project, despite the opposition of the States of Chhattisgarh and Odisha, after consulting the government of the two new States. The law also proposed consequential amendments to the People Act of 1950, the first and the fourth chapter of the Indian constitution.

Figure 16. The Godavari dam<sup>155</sup>



Source: Minister of water resources, river development & Ganga Rejuvenation of India

### 5.3 Economic resources for the new State

*Polavaram Irrigation Project for the purposes of irrigation. (3) The consent for Polavaram Irrigation Project shall be deemed to have been given by the successor State of Telangana. (4) The Central Government shall execute the project and obtain all requisite clearances including environmental, forests, and rehabilitation and resettlement norms. THE ANDHRA PRADESH REORGANISATION ACT, 2014, Part IX art.90; irrigation projects mentions ar Part II art.3 ; <http://www.Indiacode.nic.in/acts2014/6%20of%202014.pdf>*

<sup>154</sup> The project was developed in 1941 but works only began only in 2004.

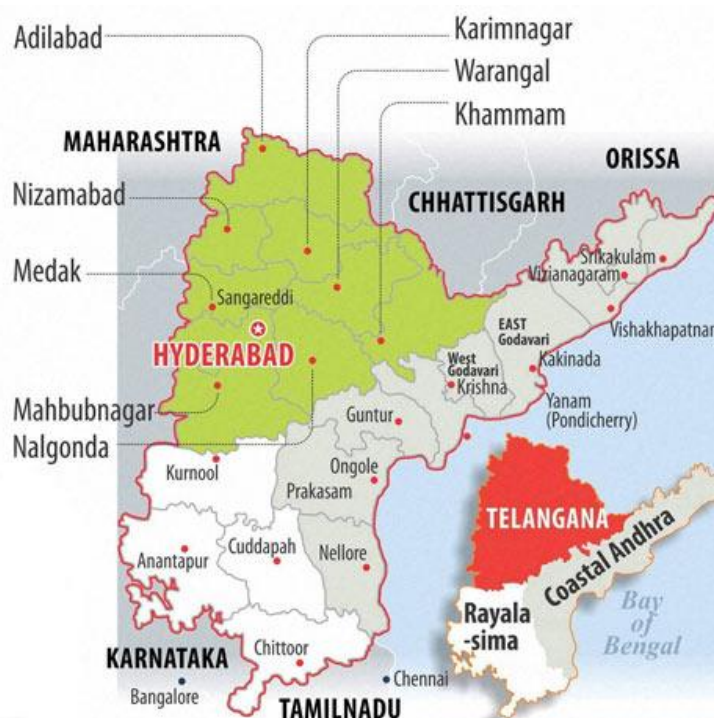
<sup>155</sup> The table shows the dam plans that would direct the waters of the Godavari in the basin of Krishna, who is in constant shortage of water

The creation of a new State requires the allocation of funds by the State for the development of infrastructure and new administrative headquarters: first, the capital, the former capital of the two States will remain Hyderabad for the provisional period of 10 years.

Other investments include the search for new water and natural resources especially for Telangana, whose area rich in water resources scattered in the coastal districts. This is the reason why the leaders of the Congress Party and the majority of ministers, including the Minister of technology S.Jaipal Reddy, encouraged the idea of including the district of Kurnool and Anantapur, rich in water resources, in the new State of Telangana.

Telangana would thus redeem with the Srisailem dam and the reservoir on the river Krishna, improved by the Polavaram project in case of successful achievement.

Figure 17 Richest districts in Water resources<sup>156</sup>



Source: Andhra Pradesh News Corner <http://www.apnewscorner.com/>

<sup>156</sup> The map illustrates Kurnool and Anantapur, the richest districts in water resources, now included in Andhra Pradesh.

The political climate is not calmed, and remains on the debate the exploitation of water resources and power of the two States. During my stay in Telangana, I find out in the newspaper that late in October (2014) the Prime Minister of Telangana K Chandrasekhar Rao has attacked his political counterpart of Andhra Pradesh, N Chandrababu Naidu, on the sharing of water resources and power in the region<sup>157</sup>. Telangana will probably lose the struggle for the sharing of water resources with Andhra Pradesh. Official sources informed that drinking water resources from Krishna river obtainable from January 2015 are not sufficient for the needs of the new State if no decision is expressed on the Srisailem and Nagarjunasagar tanks. At present, the Krishna water project (Phase I and II) covers 60% of the demand for drinking water for the total population.<sup>158</sup>

The accusations made by Mr MR Rao Naidu, as well as to include the exploitation of natural resources, reaching the target groups of the main government program of micro-credit (DWCRA). Mr. Rao in November 2014 reproached Mr. Naidu delay in cancellation of debts by groups of women involved in DWCRA, thanks to an agreement reached following the secession of Telengana.

Mr Naidu answered ensuring that a action plan in this direction had already been taken and would be in the public domain before the November 15 2014. Il government has guaranteed the allocation of funds for an amount of 5,000 million rupees and a payment of 20% to the Banks to ensure the issuance of new loans.<sup>159</sup>

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<sup>157</sup> "No Power, Water for Farmers in Telangana. Blame Andhra Pradesh Chief Minister" November 05, 2014, NDTV; "Andhra Pradesh to expose Telangana's 'misdeeds' over Krishna river water", The Times of India, October 28, 2014.

"Telangana, Andhra in war of words over dam water", The Indian express, January 27, 2015

<sup>158</sup> "Telangana-Andhra Pradesh water conflict may leave city thirsty", The Times of India (web edition) B Krishna Prasad, Oct 29, 2014.

<sup>159</sup> "I appeal to the DWCRA women not to pay interest on their loans. The government is prepared to bear the burden as and when necessary and we will ensure that DWCRA women secured fresh loans," dall'articolo "No going back on loan waiver: Naidu"; The Indu, 22 Ott. 2014.

## 5.4 Agriculture in Telangana

Agriculture is the driver of Telangana economy. Farmers in Telangana mainly depend on rain-fed water sources for irrigation. The rainfall of the State of Telangana are mostly received by two monsoons: the South-West monsoon which begins in June and ends in September and the Northeast monsoon starting in October and lasting until December. Telangana annual rainfall is on average 906 mm per year. Two years the the 2013-2014 period, the State has registered an increase of the average annual value for the both the Southeast monsoon, whose rainfall had a total amount of 852 mm, against the average of 715 mm, and the monsoon in the Northeast , with a value of 243 mm against the average value of 129 mm.<sup>160</sup>

Rice is the major food crop. Other important crops are cotton, sugar cane; mango and tobacco are the local crops. Recently, crops used for vegetable oil production such as sunflower and peanuts have gained favour. There are many multi-State irrigation projects in development, including Godavari River Basin Irrigation Projects and Nagarjuna Sagar Dam, the world's highest masonry dam.

Productivity<sup>161</sup> of rice crops has been stable over the last decade: national based estimation is equal to 3302 par kg per hectare in the two-year period (2013-2014). Productivity of maize has instead shown fluctuations instead, with a negative peak of 2400 kg per hectare in 2009-2010, while increasing to 4588 kg in 2013-2014.<sup>162</sup>

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<sup>160</sup> Indicators are those provided in "Reinventing Telangana socio-economic out look 2014".

<sup>161</sup> The value represents the production in ilogram per hectar of land.

<sup>162</sup> I valori sono riportati nel "Reinventing Telangana socio-economic out look 2014"

If we look at district level, Northern districts are rich in crops of rice, jowar \*, maize, red gram, engal gram, gingelly and Tobacco. In the district of Nizamabad prevail crops of rice and red gram, in Khammam the most relevant crop is that of maize while in Warangal district that of cotton.

#### 5.4.1 Major crops in Khammam

Figure 18. Major crops in Khammam

Name of the crop	Area(Ha.)	Production (MTs)	Source
<b>Total Cotton</b>	184770	505400	Statistical Year Book-2013
<b>Rice</b>	153835	473080	"
<b>Maize</b>	32057	172456	"
<b>Chillies</b>	30494	137245	"
<b>Mangoes</b>	25931	116404	"
<b>Green gram</b>	13055	8843	"
<b>Groundnut</b>	6508	10447	"
<b>Blackgram</b>	6280	6073	"

Source: Bureau of Economics, Telangana State official web site

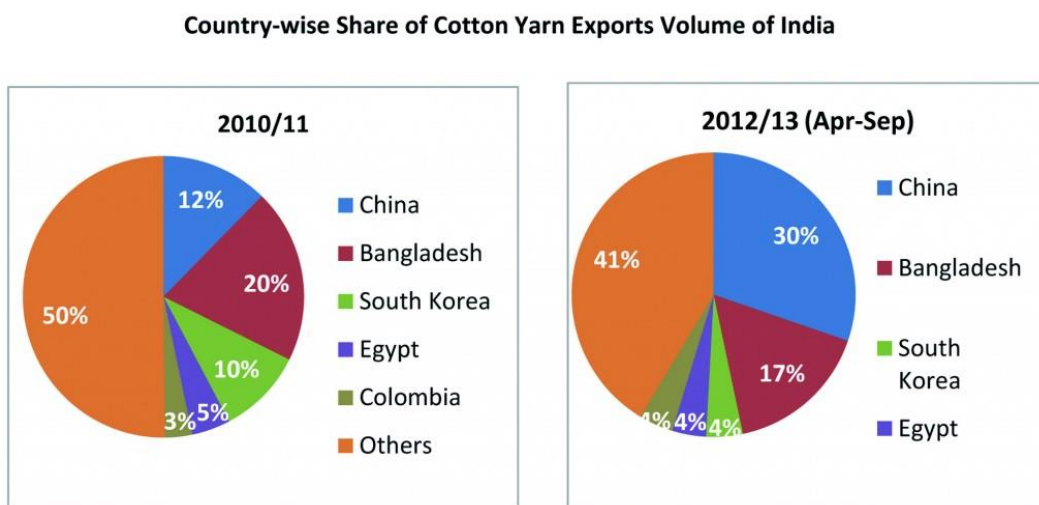
As we see from the table above the major crop in Khammam is cotton, with 505400 tons of output. The cotton produced locally is purchased from Cotton Corporation of India (CCI) at the cotton market yard every year, where farmers arrive with hundreds of bags filled with cotton and waited for their turn to sell cotton at a minimum support price per quintal (Rs. 4,050 for 2014<sup>163</sup>). This year protests erupted when farmers' production were rejected for the high level of moisture: the permissible level was fixed to eight to twelve per cent in 2014. Apart from the production rejected, the main issue was the price fixed but not respected from the Cotton Corporation of India,

<sup>163</sup> The Hindu, November 17/2014, "Cotton farmers stage protest in Khammam".

because trader came forward to buy cotton at a much lower price, ranged from Rs 3,000 to Rs 3,500 per quintal.

The reason on international scale is the slow down of Chinese imports of cotton who are under pressure for reducing their inventories. N. Srinivasa Rao, a cotton buyer, declared that “China plans to offload its stocks and provide subsidies directly to farmers. There is no option left for cotton growers here except to sell to local ginning mills<sup>164</sup>”

Figure 19. Country-wise share of Cotton Yarn exports Volume of India<sup>165</sup>

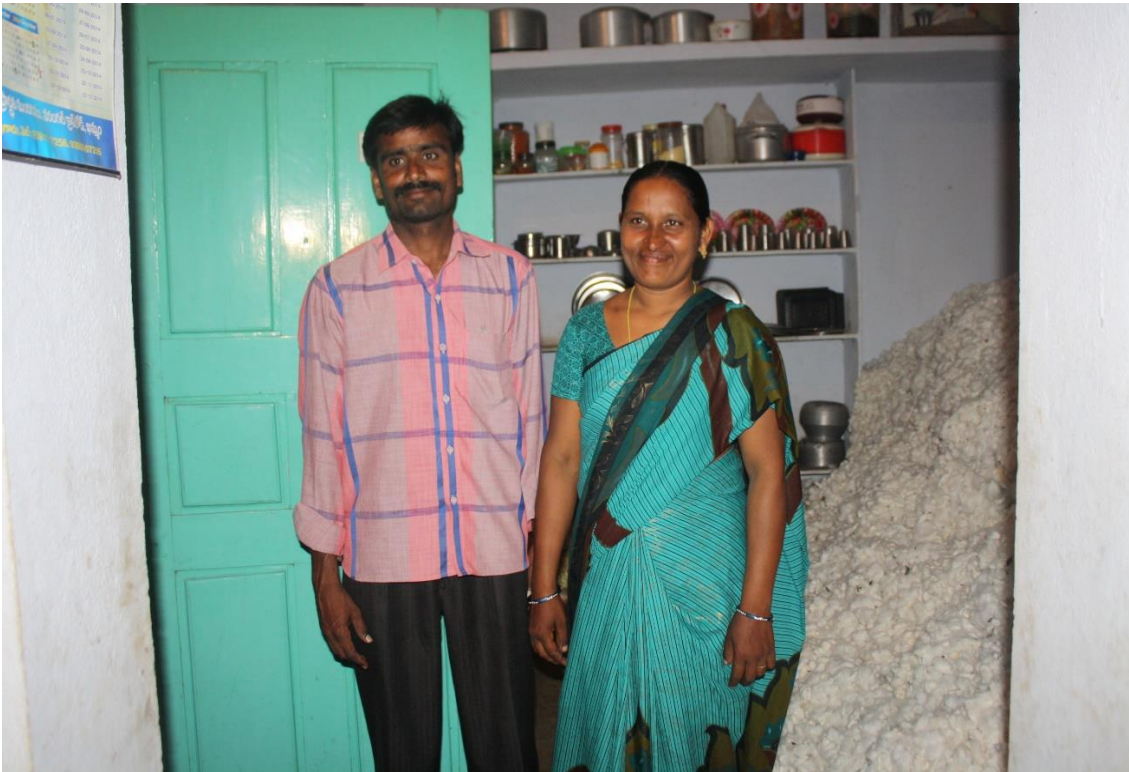


Source: DGCIS, India

<sup>164</sup> Deccan Chronicles, “Cotton farmers distressed lot” DC CORRESPONDENT , September 24, 2014.

<sup>165</sup> The table highlight a general decrease in Exports to China in the last two-year period from 50 percent to 40 percent.

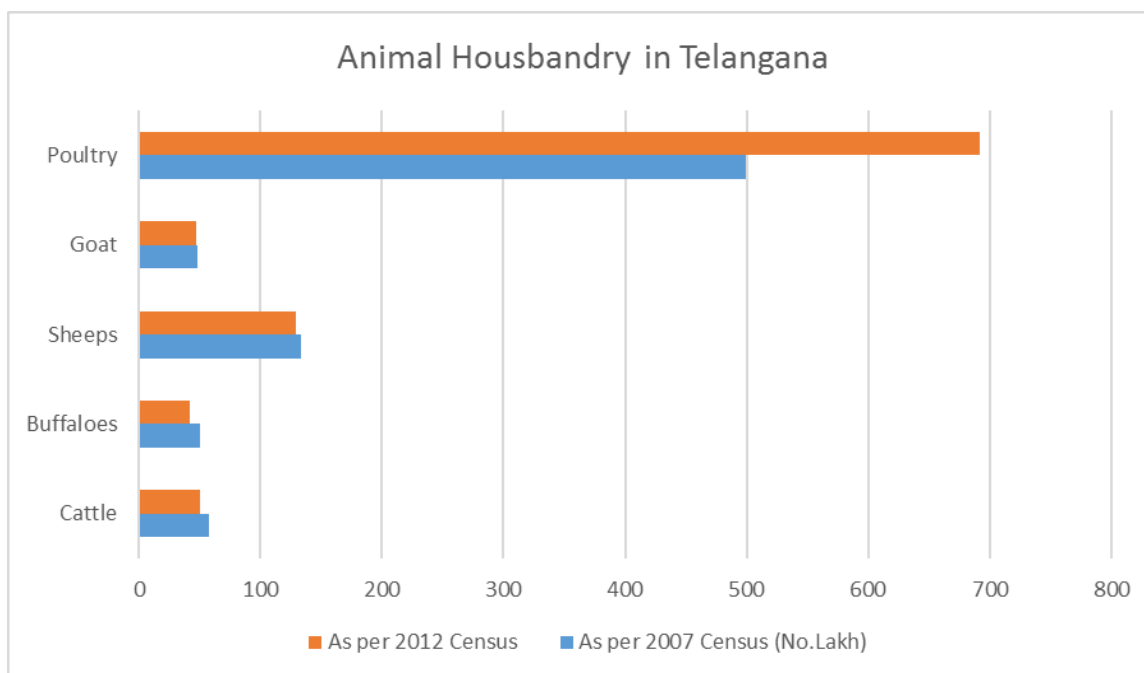
Figure 20. Indian family proud to show its cotton productionn production.



## 5.5 Animal Husbandry in Telangana

Animal husbandry plays an important role in the rural economy of Telangana State. A large number of farmers in India depends on animal husbandry for their livelihood. Animals are the major source of power for both farmers and drayers because they supply milk, meat, eggs, wool and hides. Telangana has rich livestock resources, especially among bovine and ovine population: cattle and sheep accounts to 5.52% of the national share. The State is the 1<sup>st</sup> in sheep population while it stands 12<sup>th</sup> in goat population, 5<sup>th</sup> in Poultry and 17<sup>th</sup> in pig population, as described in the Livestock Census of 2007.

Figure 21. Animal Husbandry in Telangana<sup>166</sup>.



Source: Directorate of Animal Husbandry, Telangana Socio-economic outlook 2013-2014

The main reference document at present stage, are the national statistics included in the 19<sup>th</sup> Livestock Census of 2012 (all India report)<sup>167</sup> which provides detailed information on livestock, poultry<sup>168</sup>, implements and machinery used for livestock rearing. The first livestock Census was published in 1919 and is financed by central government grant; afterwards the Census is conducted by each Animal Husbandry Departments of States.

It is remarkable that the livestock sector alone contributes nearly 25.6% of Value of Output at current prices of total value of output in Agriculture, Fishing & Forestry sector. The overall

<sup>166</sup> The table shows a decline both in bovine and ovine population over the period 2007-2012. At the same time, there was an impressive increase of poultry population

<sup>167</sup> See <http://www.dahd.nic.in/dahd/WriteReadData/Livestock.pdf>.

<sup>168</sup> Poultry refers to chickens, turkeys, ducks, or geese, raised for meat or eggs.

contribution of Livestock Sector in total GDP is nearly 4.11% at current prices during 2012-13. In India agriculture is the most important labor sector employing 49% of the total labor force.<sup>169</sup>

As far as concerns fishery activities, a major proportion of aquaculture farms are concentrated in Khammam district. Farmers from Mahabubnagar, Nalgonda, Karminagar and Adilabad districts are engaged in prawn culture.

## **5.6 Labor market by occupation in Telangana**

The analysis of the labor force by occupation at the district level indicates that, in most districts, about 50% of the working population is employed in the agricultural and allied sectors, followed by the services sector (less than 50%). Service sector contributed to 59.9 percent to India's GDP during 2013-2014 and a similar trend is noticeable for Telangana.

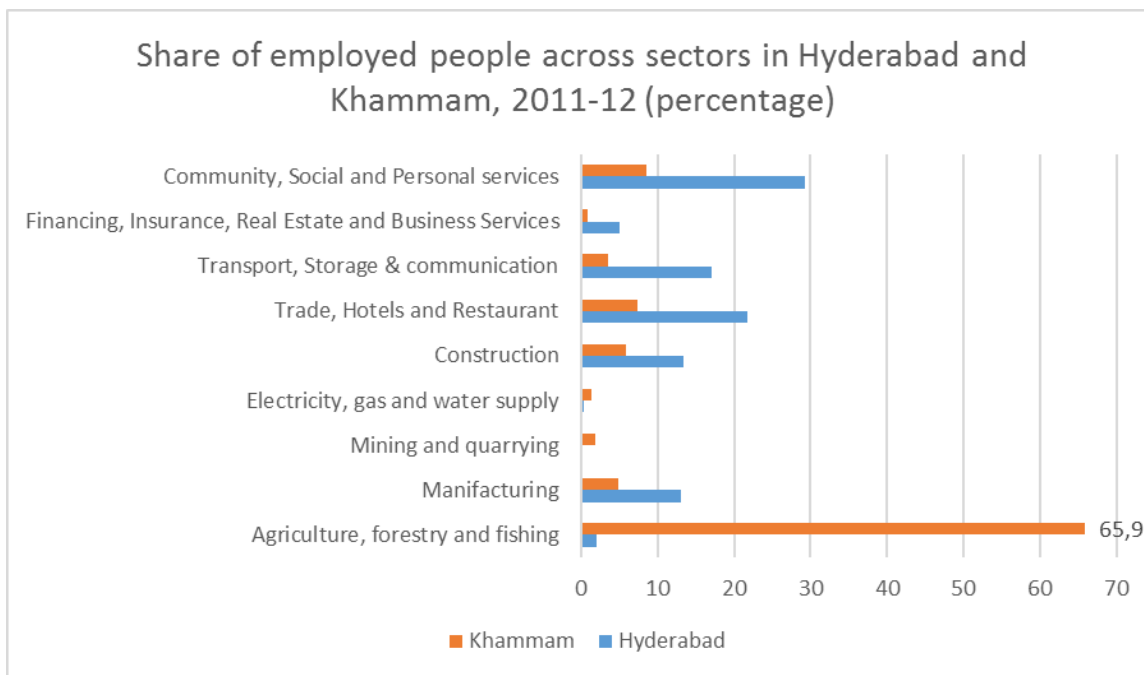
Among the services, the leading sector is commerce, followed by hotels and restaurants. It is important to notice that Hyderabad has a social context significantly different from the rest of the State. In the capital alone the 86.3% of the working population work in service sector (68th NSS Employment Survey estimates, Census 2011-12)<sup>170</sup>: services to the community, social and personal services accounted for 29.2% , Followed from hotels and restaurants (about 21.7%) and Followed by the transport, communication (17%) and construction (13.4%). Apparently, only 5% of the workforce is engaged in emerging sectors such as telecommunications, finance and Banking

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<sup>169</sup> As regard the labor share, reference is made to the CIA World Factbook, India Country Profile, 2012 est.

<sup>170</sup> Ministry of Statistics and Programme Implementation has released National Sample Survey Office (NSSO), the key indicators of Employment and Unemployment in India, from the data collected in its 68th round survey conducted during the period July 2011 – June 2012. 68th NSS Employment Survey estimates and Census 2011-12

Figure 22. Share of employes people across sectors in Hyderabad and Khammam



The table clearly shows the different labor division between the districts of Hyderabad, the capital, and the Khammam district. For the my research purpose, evaluating the social and economical impact of the Arbor foundation income generating program this finding is significant because it shows that incomes in that district comes from agricultural sector and the the economic impact of the program should be assessed first in the agricultural activities.

As we will see in the next chapter, this find will be confirmed by field firsthand-data through interviews.

## 6. EVIDENCE FROM THE FIELD EXPERIENCE

We will now go through the evidence emerging from the interviews regarding more strictly economic indicators. Firstly I have tried to understand, on one hand, the economic and social situation prior to the Arbor intervention, following the pattern of previous researches.

Important economic indicators of the interviews were credit access, aggregation of financial services in multiple-loans, savings sources and employments of savings; being an income generating program, the first data to assess was the kind of employment among women in the program, considering how much the program has influenced a general improvement of their life conditions. The sample is on average well representative since I conducted the interviews in the four sub-centers through which arbor affirms its widespread presence in the Khammam districts.

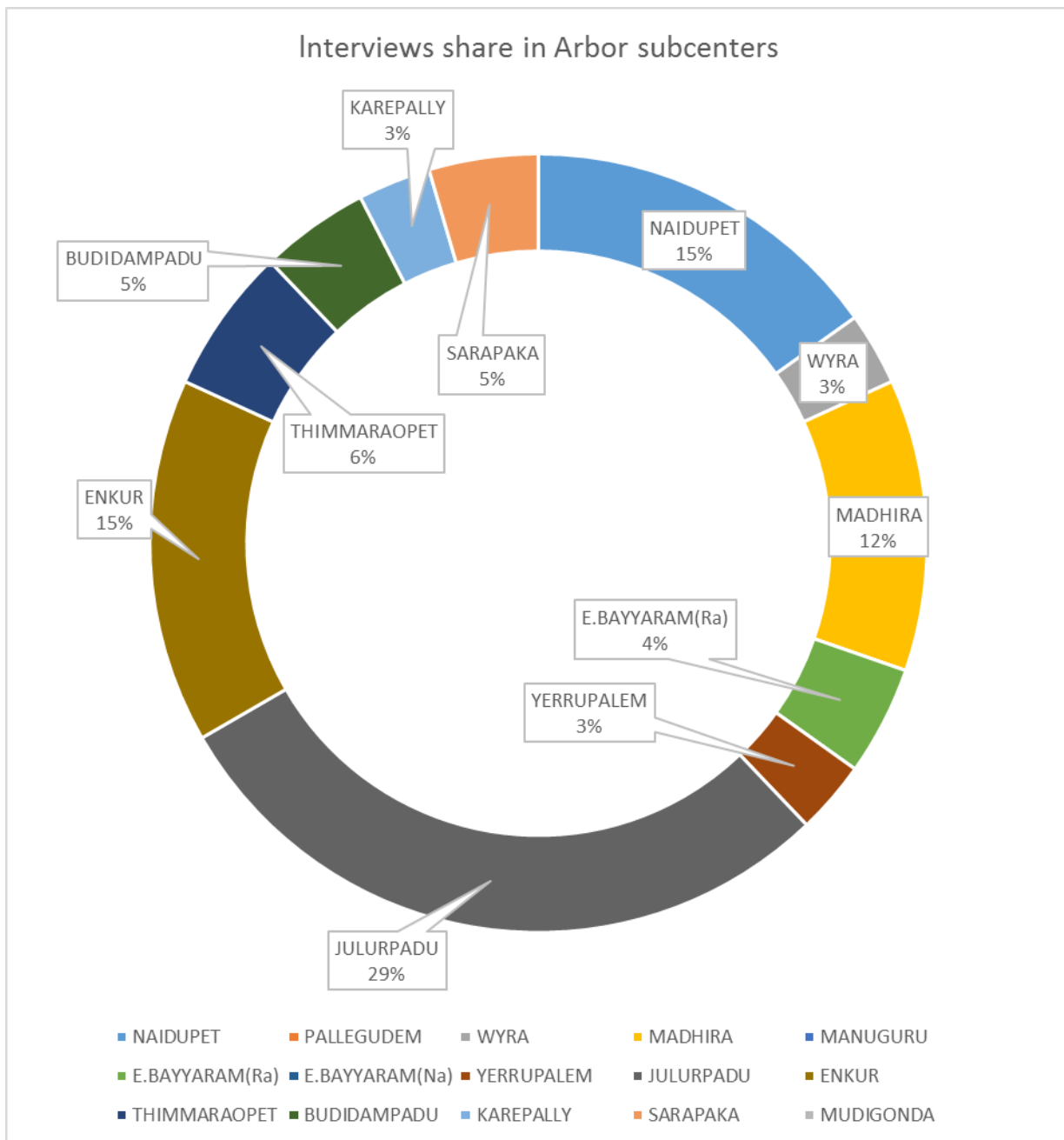
Figure 23. Khammam district



The map shows the administrative division of Khammam. The areas marked with a red star (\*) indicate interviews' location.

Source: Telangana State Portal.

Figure 24. Interviews' share in Khammam district

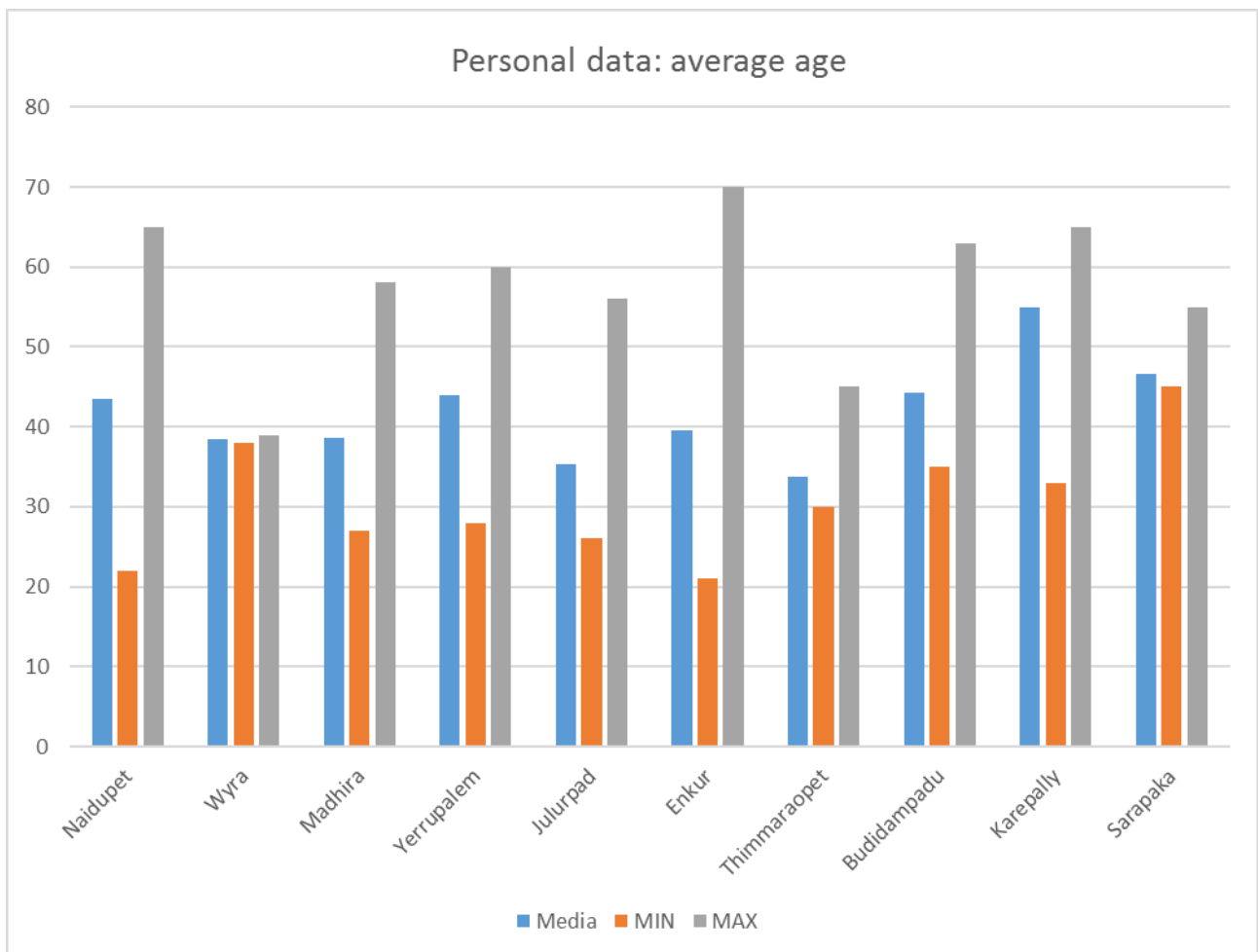


### 6.1 Personal data

The survey involved 69 subjects, all females with age-range between 21 and 70 years; the interviews occurred in most cases after the formal speech of Arbor microcredit director, Sr Daisy.

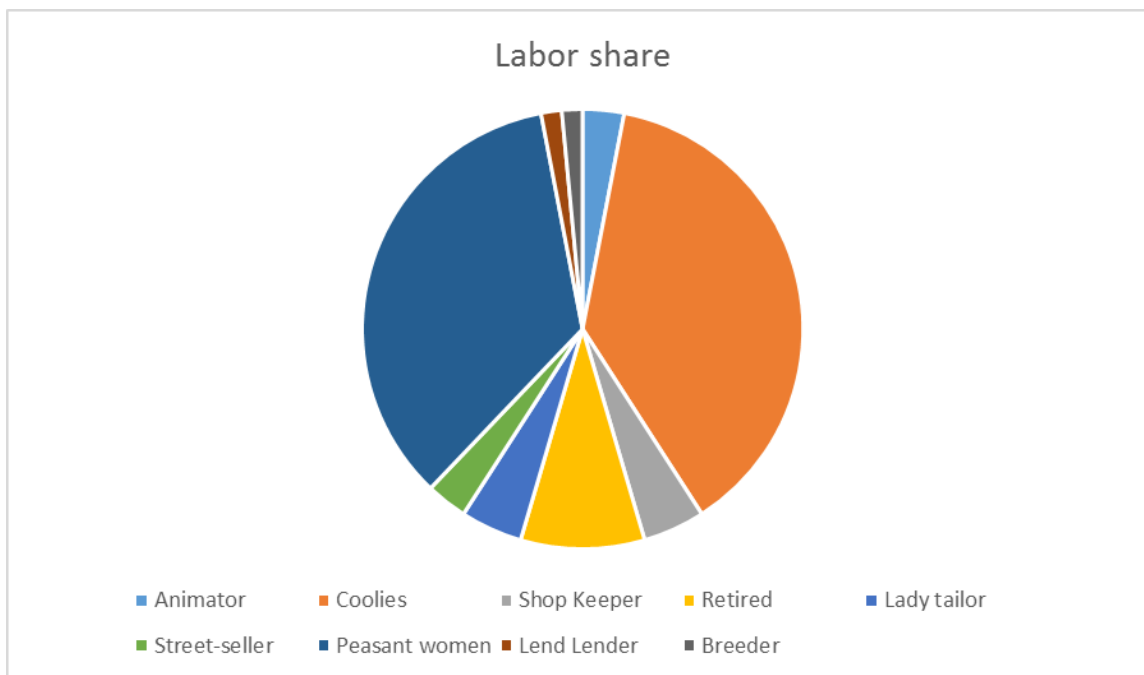
Arbor staff briefed me before meetings and introduced me to local women. Since I did not want to compromise the meetings activities, I interviewed the women after the Arbor meeting, thus I was able to interview 2-3 women per meeting, except from the centre of Julurpad, Enkuru and Naidupet, where the staff helped me to organise a special meeting for interviews. That is the reason why these two centre are over-represented compared to the other.<sup>171</sup>

Figure 25. Average age of women interviewed by sub-centre



<sup>171</sup> Respectively I interviewed 11 women in Naidupet and, 10 in Enkuru while 19 in Julurpad.

Figure 26. Labor share among women interviewed.



As we appreciate from the table above, the majority of women are in the agriculture sector, being peasants (23%) or coolies (25%)<sup>172</sup> while only a small number (3%) accounts for the trade sector; the present labor division confirm the general trend observed previously for between the Khammam district.

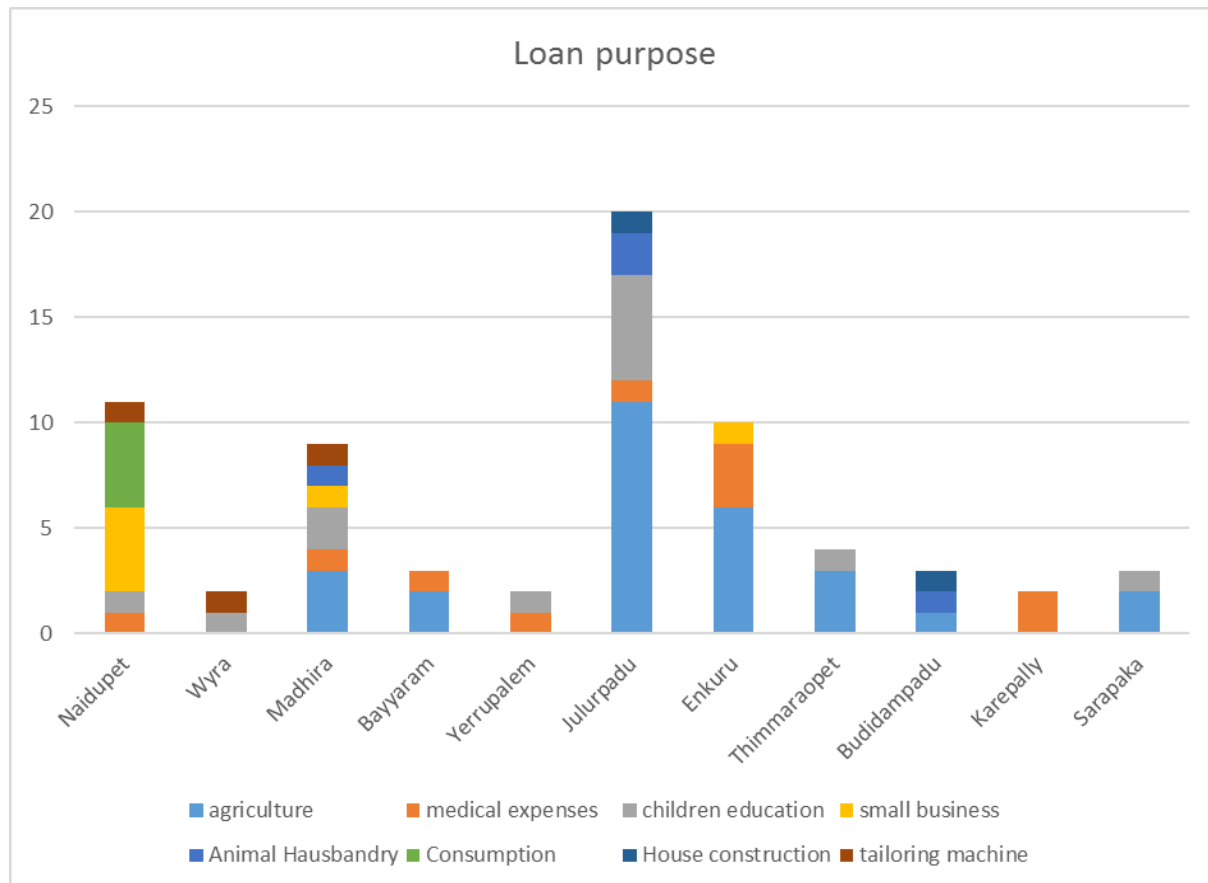
In selecting people to interview, my aim was not to produce a demographically representative sample, but to provide illustrative depth of the range and kinds of experiences of people who participate to the program. This was shaped by significant differences in the profile and essential needs of each self-help group. For exemple, women who live nearby the city often invest the amount of money received by Arbor to a small income generating activity<sup>173</sup>, while women who lived in a village very far from the closest town used that amount of money for basic needs such as food or medicines.

<sup>172</sup> "Coolie, (from Hindi Kuli, an aboriginal tribal name, or from Tamil kuli, "wages"), in usually pejorative European usage, an unskilled labourer or porter usually in or from the Far East hired for low or subsistence wages." Def. Encyclopedia Britannica

<sup>173</sup> Shop keeper which costitutes 3% of the sample, live nearby the city of Khammam in Naidupet centre.

The following table (Fig.25) gives statistics showing the purpose of loans pursued in Arbor centres; agriculture stands for different aims, the most quoted were seeds or pesticides.

Figure 27. Loan Purposes



Overall, it can be seen that consumption and business purposes are by far the highest in Naidupet, because of the proximity to town; Julurpadu has the highest share of agriculture purpose and children education while medical expenses are significantly high in Enkuru. The table above also how, apart from Naidupet, the range of indicators are quite similar for all the subcentres.

## 6.2 Group Dynamics

*“They have elected me because they have found something special in me, not for money! To become animator I suggest to motivate your people! Even If not by force; for example, in one family, there was one woman paralysed, she can not come to meeting...when she asked me to allow her to continue the program, of course I accepted”*

*Arbor Group leader*

Arbor has a set of criteria to select women participating in the program: each group includes 10 to 15 members<sup>174</sup>. Although group members are from the same village, one household is allowed to join with no more than two members.<sup>175</sup> When accepting Arbor conditions, each new member pay a symbolic amount of 50 Rs (0, 70 euro cent) which is not refundable.

Afterwards, every group appoints two leaders and animators open one joint Bank account on behalf of group leaders. Groups and Arbor staff schedule together the monthly repayments dates and advance dates

If one member wants to exit the program, she is welcome to re-join following Arbor conditions from the beginning. This implies the reduction of loan amount, because It increases every year in a progressive way.

After three years of regular savings with Arbor, the members are free to leave the program indefinitely<sup>14</sup>.

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<sup>174</sup> There are some social groups formally excluded from the program; for instance, women unmarried are not allowed to join, while widows are well accepted.

<sup>175</sup> FINCA, the organisation which pioneered the village banking concept, lends to large borrower groups of between 10 and 50 members, and boasts repayment rates of 96%.GHATAK and GUINNANE (1999) argue that despite the insurance effect of larger groups, smaller groups are to be preferred for their better in-group co-ordination and reduced level of free-riding. On the other hand, BUCKLEY (1996) empirically finds that groups with ten or more members still can work effectively.

### 6.3 Alternative forms of collaterals

Arbor program also provide alternative forms of collateral for the microcredit program. In microfinance there are three major forms of collaterals: peer pressure, business pressure and savings.

Low-income families do not have sufficient income or property to provide as collateral; often they do not own land, machinery or capital as collateral to apply for a micro-credit. Modern microfinance has developed specific model of joined alternative collaterals to minimize the risk for the financial institution which supply micro-credit.

As long as concerns group loans, the main one is the *peer pressure* or *joint liability*. The term conveys the psychological pressure carried out by members. The collateral works because the lending institution and the group itself lose their relationship of trust. The effect is not only individual but also “social failure”. Moreover, members normally are subjected to *business pressures* on organizations generated by strong competition among MFIs. Bank officials want to be highly performing and productive all the time so that they put pressure on groups to increase profit from micro-lending activity.

This is not Arbor case. The program coordinators are nouns; they do not want to enlarge the program if the villages are too far from their convent and they do not search a for-profit activity. So that business pressure is absent in the Arbor program.

By the way, *peer pressure* is present and *savings* constitutes the main alternative form of collateral for the Arbor program. The Arbor women self-help group, generally made up of 10 women, gather

savings during the meetings. Thereafter village animators transfer money to the Bank; they record detailed information and notes in three registers: the individual books, the group books and the area books. Monthly, the Coordinator of the sub-centre check the record keeping of his centre. Savings from the members are considered as an integral part of the program and all members must pay the same amount as savings. Savings collected from group members are deposited in the joined account book and this pass book is guarded over by coordinators.

We must consider that in the groups formation each member ensures all other members of his reliability, because the group will fail to receive the loan if even one member fails to repay the amount due or the group will have to share his repayments rates. The group is self-selected, meaning that the Bank official reduce time and energy in selection process.

Some microcredit institutions include the establishment of a mutual fund, which is used if one or more members fails to pay credit installments. The use of the fund also can be both at the discretion of the Bank officials or the groups themselves. When applying group discretion, is mainly because the group pay part of the amount due by the defaulting member, who afterwards will be solely responsible for the repayment to the group fund. It may instead be the Bank official entitled to decide the use of the fund, the fund is automatically allocated when one member of the group defaults. Finally, if the group fails to repay the amount withdrawn from the fund, the group will no longer have access to credit.

Bank agent may also decide to personally verify individual behaviour. The agent may ask about reputation of the potential client in the community he belongs to, or visiting directly the house or the village several times understanding the most frequented place, asking other villagers that kind of behavior has the potential client within the community.

Most important, house-visits are recurring aspects of rural finance, also for traditional Institutions: the visit allows the Bank agent to figure customer property out and thus assess if he is able to repay

the credit, apart from establishing a relationship of mutual trust between the customer and the Bank agent. Nevertheless, frequent visits to the home include additional costs to consider in the institutional balance.

Among the most common alternative forms of collateral there is a fixed savings amount, which differ from the voluntary savings as It can not be withdrawn until the loan has been fully repaid: that is to say a budget, given by a certain percentage of the loan, expressed in savings for the first loan and if required, for the next.

A variation on this form of collateral is a progressive interest rate for each additional month but if customers have made the payments on time and in full amount due, the additional charge will be refunded. With regard to Arbor program, interest accumulated thanks to groups savings belongs to the group and they will be at their disposal after a three-years period. Arbor also include a fine of Rs 10 in case members do not bring savings for the monthly meeting. This amount will be kept for a common purpose of the group. This vision is confirmed by the theoretical study of BESLEY and COATE (1995) because it shows that the possibility of inflicting social sanctions on peers helps improve repayment.

## **6.4 Recourse to informal sources : usury in the post – crisis scene**

In the 1970s, when I began working here on what would eventually be called “microcredit,” one of my goals was to eliminate the presence of loan sharks who grow rich by preying on the poor. In 1983, I founded Grameen Bank to provide small loans that people, especially poor women, could use to bring themselves out of poverty. At that time, I never imagined that one day microcredit would give rise to its own breed of loan sharks.

But it has.

Yunus-The New York Time Opinions page, January 14,2011

In ancient societies, welfare was evaluated according to food provision and landholdings. People who do not repaid their loans, lost their stocks and causing landlessness for many who had to rent from their formal creditors. Often, they had no choice, than to become slaves. In fact, loans were the rudimentary means of emancipation and freedom. To pour this injustice, the God of the Jews convoked periodically the Jubilee year, in which every possession had to return to its rightful owner, and all slaves were freed.<sup>176</sup>

In medieval Europe, the collision between the Christian prohibition on interest rates and invaluable utility of credit has reached a critical point when Italian city-States became centers of commerce and Banking (Woods, 2005)<sup>177</sup>. This concentration of economic activity seems to have enticed Christian authorities to a more conciliatory attitude towards interest rates. In the Christian world, usury, firstly referred to all interest rates applied to only those above a determined fair price. In 1515, the Pontifical Council explained the new concept addressing the controversy that had arisen about the activities of the Monti di pietà<sup>178</sup>, accused of usurious practices. The papal judgment proved to be bold and modern: the majority of observers now recognize the legitimacy of interest rates if needed to cover the the costs. Although, it remained outrageous attempt to get profit by providing services to the poor.

There are three elements to assess the boundary between financial services provided to the poor and usury: the interest rate, the rate of profit, and the duration of the financial activity<sup>179</sup>. For

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<sup>176</sup>“You shall count seven weeks[a] of years, seven times seven years, so that the time of the seven weeks of years shall give you forty-nine years. 9 Then you shall sound the loud trumpet on the tenth day of the seventh month. On the Day of Atonement you shall sound the trumpet throughout all your land. 10 And you shall consecrate the fiftieth year, and proclaim liberty throughout the land to all its inhabitants. It shall be a jubilee for you, when each of you shall return to his property and each of you shall return to his clan.” Leviticus 25:8-10 (New English Bible).

<sup>177</sup> T. E. Woods., *The Church and the Market: A Catholic Defense of the Free Economy*, Oxford(UK), 2005.

<sup>178</sup> In November 2011, Chuck Waterfield, the MFTransparency CEO, wrote a guest blog for GAP, entitled “A Quick Journey Through the History of Usury: Commercialization and profiting from the poor” to access the blog .

<sup>179</sup> Yunus, Muhammad, Bertrand Moingeon, and Laurence Lehmann-Ortega. *Building Social Business Models Lessons From The Grameen Experience*. Vol. 43. Jouy-en-Josas: Groupe HEC, 2009. PDF

Mohammed Yunus, founder of Grameen Bank, financial independence is necessary and this means the absence of subsidies, the complete passage of the operating costs to the customer concerned. In support of his opinion is the fact that the rich and / or historically influential people manage to grab credit from State subsidies more easily than the poor. Yunus has thus drawn the golden rule in the interest rate: a microcredit Institution should not ask his customer more than 15% of what it paid to grant loans from commercial Banks and investors. Nonetheless, with this proposal, Yunus affirms also that it is difficult to establish a strict regulatory framework to the industry.

The figure of "money lender" was regulated by the "Money Lenders Act of 2010; in the document money lender is defined as a person who makes a loan as ordinary work or complementary to their main occupation<sup>180</sup>. Moneylenders lend money legally only in presence of borrower's legal representative and his guarantor because of succession, designation or other reason.<sup>181</sup> The standards usury (lending with progressive increasing interest) generally establish a "threshold" for interest rate that may be lower than the rates charged by MFI. In accordance to this type of *selection bias*, MFIs further limit the capacity to deliver individual loans for very poor clients. Often, in addition, the Banks is unable to compete with the subsidies that MFIs obtain at the beginning of projects.

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<sup>180</sup> Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance 2010, [http://apmfi.cgg.gov.in/downloads/2010PR\\_MS356.PDF](http://apmfi.cgg.gov.in/downloads/2010PR_MS356.PDF) , (accessed 25/02/2015).

<sup>181</sup> "Money lender means a person including a pawn broker, who, within the meaning of this Act, only advances loan in the ordinary course of his business or does so along with other business, and shall also include the legal representative of such person and the person claiming to be his representative on the ground of succession or assignment or otherwise" Andhra Pradesh (telangana area) Money Lenders act, 1349.

Government must notify the maximum interest rate chargeable on loans by publication in the official gazette of Andhra Pradesh, selected according to their category of work involved in lending, and feedback on the loan.<sup>182</sup>

First, according to Yunus, credit is more costly in Africa and Latin America than in South Asia; thus 3/4 microfinance institutions therefore fail under the definition of "usury". For example, Yunus attacked the Mexican Bank specialized in microfinance Compartamos in 2007, after its founders raised their own stock with an initial public offering that earned him millions, ensuring guaranteed profits from interest rate implemented by 85% per annum (in addition to a 15% additional fees).

Another way to make sure it is a good loan is to shift attention from the interest rate to profits derived from financial products; this Statement is justified by the fact that as far as providing micro-credits is an expensive activity, the high interest rate cannot be justified by generating profit<sup>183</sup>.

We shall evaluate the case of Equitas, founder of micro-credit activities in India: the maximum interest rate applied represented 5% of the initial capital (assets), but being the initial capital constituted by loans, this was equal to a profit rate of 5%. This profit rate is high even for a commercial Bank, where the average profit rate is around 3% of the initial capital.

One possible scenario is probably a start-up highly risky in a developing country needs higher profits to attract capital than commercial Banks. Competitiveness is therefore the main reason that drives to raise the rate of profit.

Last valid element to clarify the profit rate applicable to a financial asset for the poor is that of time.

In the short-term high interest is tolerable. If the high rates of profit are associated with a new

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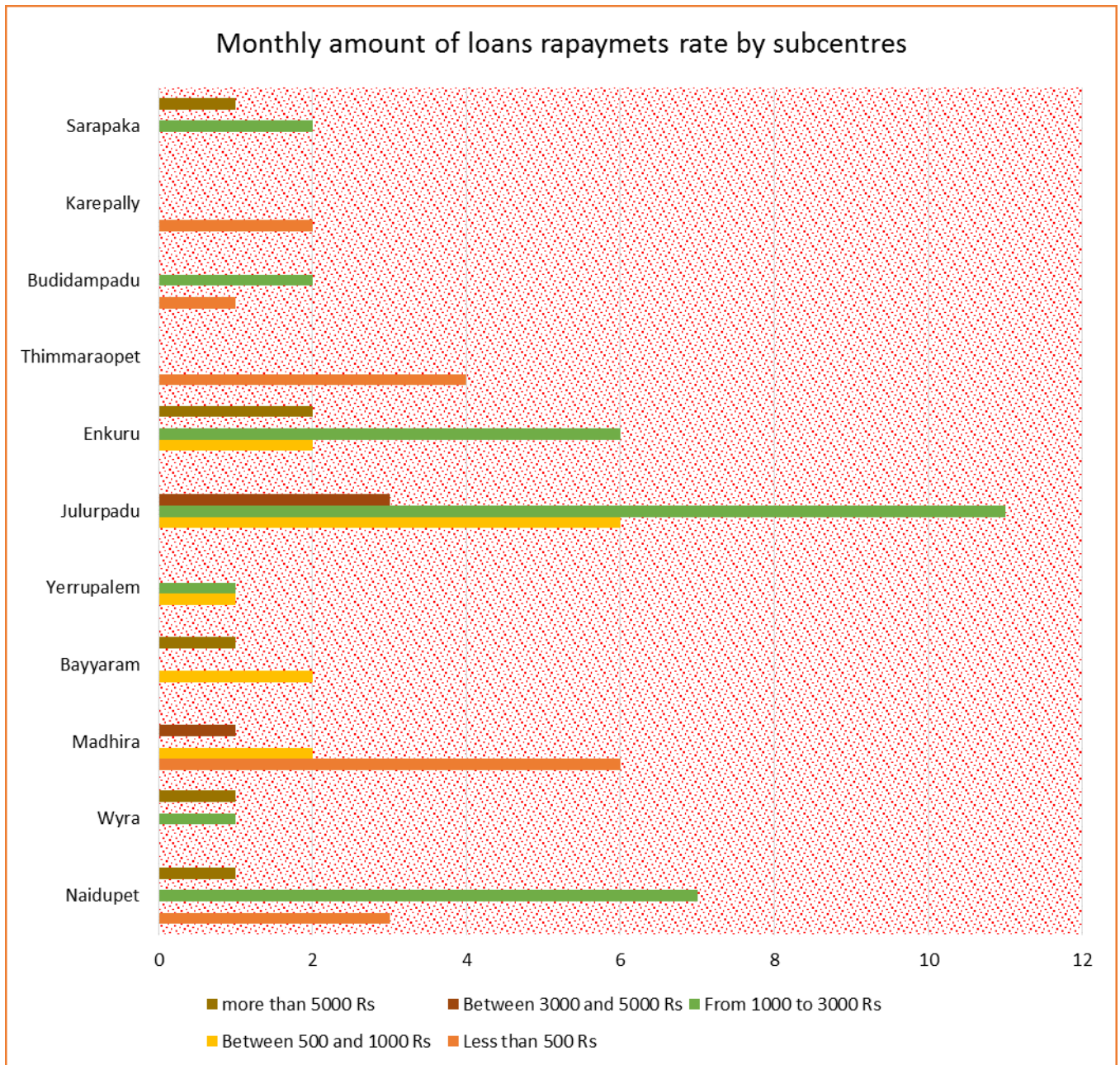
<sup>182</sup> The Government may, from time to time, by notification in the Andhra Pradesh Gazette, fix the maximum rate of interest for any local area of class of business of money lending in respect of secured loans and unsecured loans. Andhra Pradesh (telangana area) Money lenders act, 1349.

<sup>183</sup> See Mews, Constant J., and Ibrahim Abraham. "Usury and Just Compensation: Religious and Financial Ethics in Historical Perspective." *Journal of Business Ethics* 72.1 (2007): 1- 15. Business Source Premier. Web. 5 Dec. 2013

activity and then downsize in the end, when the competitiveness of the Institute increases, it will mean that the business will become more efficient and competitive in the financial services market.

## 6.5 Multiple-Loans

Figure 28. Monthly amount of loan repayments rate by sub-centre



The table above shows information about how much total loans amount affects household incomes on a monthly basis. The incidence of loans saw an upward trend in Julurpadu, where the majority of women declared a total amount between 1000 and 3000 Rs par month, while the lowest trend registered is in Madhira, where the amount is generally below 500 Rs par month. Another interesting point is that the highest value declared are associated with the incidence of moneylenders, confirming that moneylenders are the main source of financial aid in unexpected difficulties of daily life. This proves that the regulatory framework is ineffective<sup>184</sup>, because the Money Lending Act define as illegal dual-membership in development programme.

Let us take the example of Lakshmi Kandhi, 58 years old in Naidupet, the nearest village to Khammam city. Lakshmi had broken with her husband when she was pregnant of his first child at 19 years olds; after some years, when she was 23, she married his brother who died when she was pregnant of his second child. After having raised her children alone, with the financial help of her family. At the age of 20 years old, her daughter married a man and eventually had two children while his son left the village and went working in the capital, Hyderabad. Her daughter died because of diabetes leaving her with the two children alone. Lakshmi now is 58 years old and she don't go anymore working in the fields because of health problems, so she sends the small children working at her place during the weekends to survive. Government gave her a ration of 35 cades of rice monthly. In order to provide basic needs to her grandchildren, she demaded a loan to local moneylenders. The first loan amount was of one Lakh<sup>185</sup> but she did not pay the amount and,

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<sup>184</sup> "13. No dual membership: (1) No member of an Self Help Group shall be a member of another Self Help Group or any group formed by any Microfinance Institution. (2) For this purpose, each Registering Authority shall maintain a complete and updated database of the all Self Help Group members and the list of borrowers furnished by the Microfinance Institutions operating in that district." Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance 2010.

<sup>185</sup> One lakh is an Indian measure of 100,000 Rupees.

because of health problems, she had to take a second loan equal to one Lakh so that now she confessed me to keep thinking on suicide, fatalistically resigned to her difficulties.<sup>186</sup>

As the Lakshmi history teaches, If It is true that credit extension increases the freedom of individuals it must be said that after receiving credits poor too easily drop into the trap of the multiple-loans.

In order to prevent this risk, is necessary to know the total amounts of loans incumbent on individuals. In November 2010, David Roodman Yarvaguda visited the village, not far from Hyderabad and in a room usually functional in meetings of self-help groups (SHG) interviewed seven women in order to explore in detail how many micro-loans they have accumulated. It was a difficult period for the sector and the press pointed out to multiple-loans as a major cause of suicides in the region. The survey results were dramatically surprising: the debt per capita amounted to 51,000 rupees, a figure greater than the annual income of the entire family, whereas the poverty line in Andhra Pradesh is identified by 433 rupees per capita per month in rural areas. As for the goals, the main loan purposes for the village visited by Roodman as agriculture. From my interviews was also the main objective, more specifically two purposes, seeds and pesticides, were the most common.

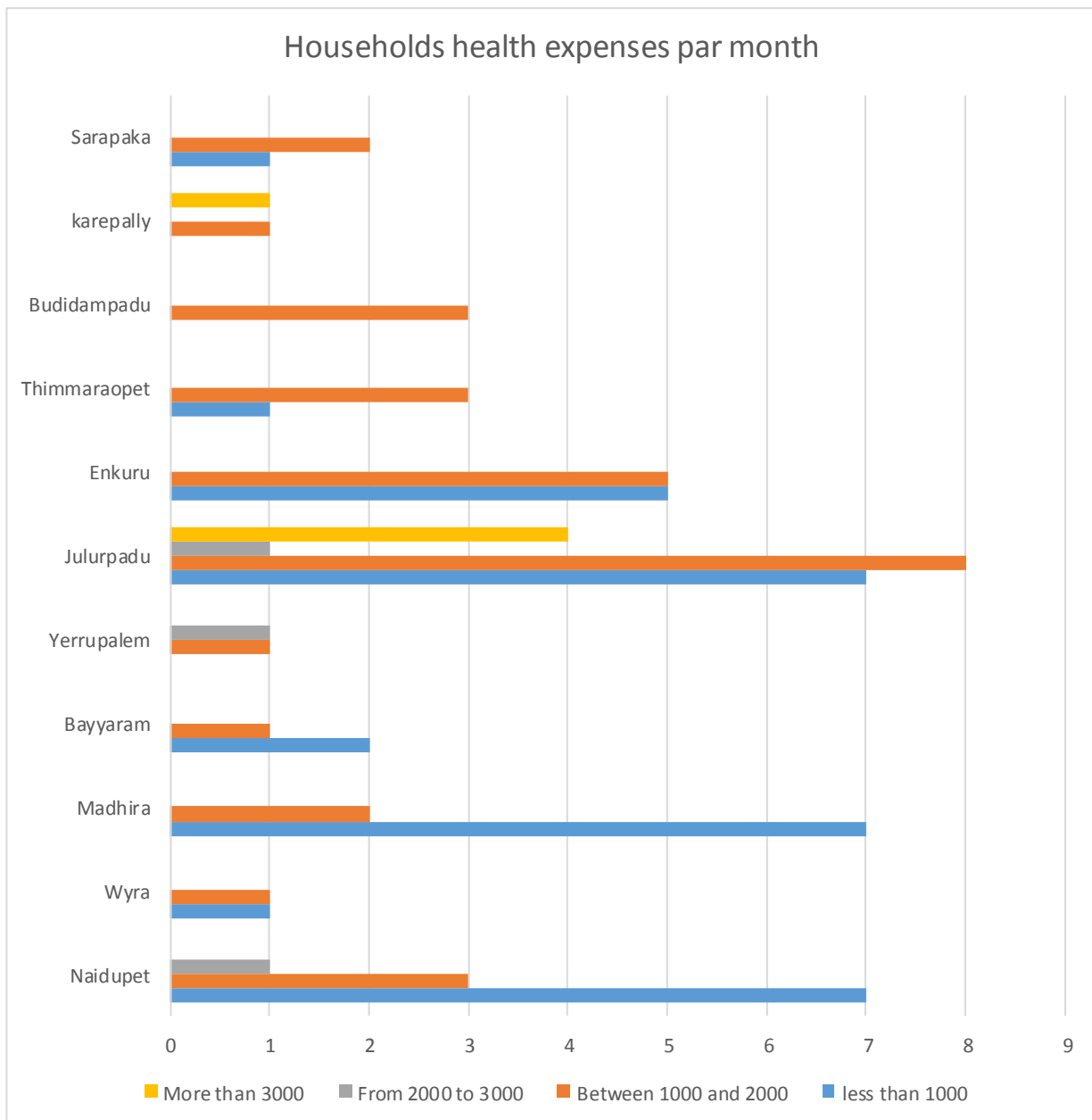
Analysing multiple-loans, the majority of women participated jointly to Arbor and the Government Program called DWCRA, Development of Women and Children in Rural India. In September 1982, the Government of India (GOI) launched the DWCRA program under the Integrated Rural Development Program (IRDP). The program started in 50 districts (all over India) on a pilot basis. This was the first rural development program focused entirely on the development of women and children.

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<sup>186</sup> I had to stop the interview because she broke in tears while explaining her dependence to moneylenders.

## 6.6 Health expenses in Telangana

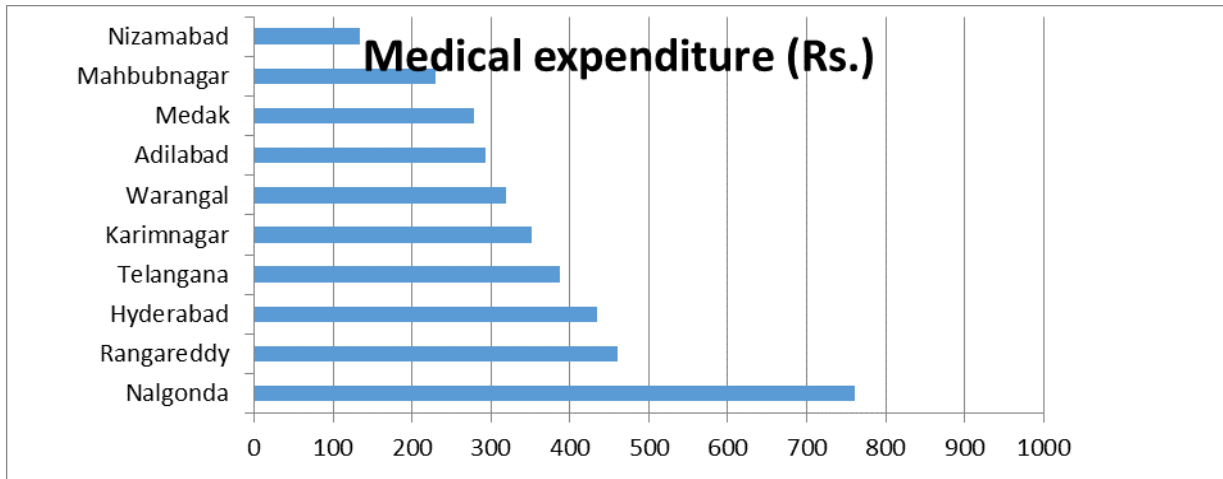
Figure 29. Households' health expenses par month



The table above (Fig.28) shows households health expenses par month by subcentres ; in the progressive order in which they are listed, we can appreciate medical expenses are higher in Julurpadu where four women admitted to spend more than 3000 Rs while eight women attested to spend between 1000 and 2000 RS. An interesting point is that in Naidupet, medical expenses are

lower, probably because of its proximity to Khammam city. More remarkable, values recorded differs significantly by official statistics, as we can see in the table below (Fig.29).

Figure 30. Medical expenses in Telangana.



Source: National Sample Survey Office (68th Round) estimates

The high value of medical expenses, registered at village level, reflects a development alt of the country at large. Even If there is an impressive growth in IT industry and increasing investment in power, road infrastructure and industry private sector, the agrarian distress and social development indicators remain unaffected. One big problem in Telangana is the high rates of malnutrition: according to UNICEF India 37% of children less than three years old are underweight while 34% show stunted growth. Another big issue for children is wasting which affects among 13% of children; the micronutrient situation is equally dramatic with about 79% of children suffering from anaemia .

While the State can boast of increasing private investments in health sector in the form of corporate hospitals<sup>187</sup>, the impact of declining public investment in primary health sector is being reflected in key indicators: the latest estimation of HIV cases account for 10% of HIV in the country, with nearly 550,000 positive persons . The new infections are prevalent in young people of 15-29 years

<sup>187</sup> Sanitation facility is likely to reach full coverage by 2014, Progress on drinkin water and sanitation, 2014, UNICEF, available at (last accessed 15/01/2015)[http://www.unicef.org/gambia/Progress\\_on\\_drinking\\_water\\_and\\_sanitation\\_2014\\_update.pdf](http://www.unicef.org/gambia/Progress_on_drinking_water_and_sanitation_2014_update.pdf)

old, this indicator points out how much is important preventive action and sexual education for adolescent and youth.<sup>188</sup>

The State is also consistently in Indian media to issues relating to protection and abuse of children, including incidence of sexual assault and abuse among both boys and girls.

Issues of concern include high incidence of child labour and large scale distress migration, skewed sex ratio, early marriage, trafficking of children for sexual and commercial exploitation and practice of female foeticide and infanticide. Coastal regions of the State are more vulnerable to disasters (floods/cyclones) where protection issues of children have to address infrastructural and emotional impacts of disasters.

For health conditions, the quality and variety of food is still the reason of many diseases spread in the region. The malnutrition levels in Telangana are the higher in India: malnutrition affects 43 percent of children below 6 years and is reflected in health indicators like child mortality and maternal mortality<sup>189</sup>.

In 2001, one research conducted by a World Bank team in collaboration with the Andhra Pradesh Pollution Control Board (APPCB) and the Environmental Protection Training and Research Institute (EPTRI), concluded that *“up to 15 million people in rural AP are using water obtained from unsafe water sources. Of these, nearly 7 million rely upon water sources that are dangerously contaminated in the sense that the levels of exposure are very likely to have identifiable health effects”*<sup>190</sup>

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<sup>188</sup> UNICEF India, [http://www.unicef.org/India/overview\\_5732.htm](http://www.unicef.org/India/overview_5732.htm) (last accessed 08/12/2014).

<sup>189</sup> Reinventing Telangana, socio-economic outlook 2014, government of Telangana (last accessed 10/12/2014).

<sup>190</sup> ENVIRONMENTAL HEALTH IN INDIA Priorities in Andhra Pradesh, 2001, World Bank publication, <http://siteresources.worldbank.org/INDIAEXTN/Resources/Reports-Publications/APHealth.pdf> (last accessed 09/01/2015)

Figure 31: Contribution to total burden of disease (percent) in India and Andhra Pradesh

	India	Andhra Pradesh		
		Total	Rural	Urban
<b>Environmental factors in the burden of disease</b>				
<b>Access to water and sanitation</b>	9	8.7	9.1	7.2
<b>Indoor air pollution</b>	0.4	5.7	6	7.1
<b>Urban air pollution</b>	2	0.2	0.0	1.0
<b>Agro-industrial pollution</b>	1	0.4	0.3	0.4
<b>All environmental factors</b>	18	15	17	9

Source: World Bank estimates (2001)

Poor community in Andhra Pradesh has to face high health risks. As we can estimate from the table above (Figure 30), child mortality rate reflects conditions that increase health conditions for adults and the elderly as well. The diary households cope with health risk and this is a major focus in their financial lives.

In India, land is prone to drought for over 68 percent, particularly Andhra Pradesh which is one of the three largest drought-prone States in India. The districts most vulnerable to drought are Anantapur, Chittoor, Cuddapah, and Kurnool in the Rayalaseema region; Rangareddi, Mahboobnagar, and Nalgonda in the Telangana region; and Prakasam in Coastal Andhra. Together, they account for about 70 percent of the State-wide crop production loss due to drought (Lvovsky 2006)<sup>191</sup>. The high level of crop loss is partially explained whenever poor harvest affect most small and marginal farmers. The risk rises when livestock are used as a store of wealth, which is already an imperfect strategy in good times, and become a dramatic condition when animals become sick or are stolen in bad times.

A lifetime is filled with many unexpected events and this is certainly more problematic for people living below the poverty line. Dramatic events set poor households back and diminish their chance of moving out of poverty.

The disruption caused by health problem requires solution beyond medical treatment because health problem become usually financial problem. Risk is omnipresent, and people in rural Andhra Pradesh answer with the so-called portfolio approach<sup>192</sup>: they patch together sums of money from different sources. The portfolio approach is important to evaluate the partial contribution of different solutions; in the case of a singular comprehensive solution the risk is that, they may never be independent or sustainable. In South Africa, a great example is the amounts of money people

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<sup>191</sup> Lvovsky, Kseniya. 2006. "Overcoming Drought: Adaptation Strategies for Andhra Pradesh, India." Washington, D.C.: World Bank.

<sup>192</sup> See Murdoch, *The portfolios of the poor*, Collins, , Princeton press, 2011

gathers for funerals; this event is dominant because the celebration is very expensive and people have to fund before, during and after this major events<sup>193</sup>.

## **6.7 Interest rates to fee or not to fee**

“This is the basis for the most important critique of microfinance. The poor are not entrepreneurs. The idea that more than a few will turn tiny loans into a viable business is simply unrealistic.”

— Ian Smillie, *Freedom from Want: The Remarkable Success Story of BRAC, the Global Grassroots Organization That's Winning the Fight Against Poverty*

Lending is an economic activity and as such, it has expected costs and risks. Unless they are not covered in credit price, financial agents do not grant significant loans. Ifran Aleem, a World Bank's economist, studied Chambar's lenders in Sind, Pakistan, in 1980<sup>194</sup>. Prior to expand lending activities, Bank agents have travelled to the villages to find out whether the applicant actually possessed a plot of land and that the land may benefit from products sold on the market. Among applicants, they selected one-half or less, thus doubling the selection cost. More significantly, in Chambar Aleem found a default rate of less than 5 percent and another significant percentage, between 10 and 20%, returned within the next 6 months, often without any fine to be paid but with more time and money spent by Bank agents in house-visiting. In conclusion, Aleem showed that the costs due to the selection and recovery of the debt amounted to 79% of the amount allocated to the loan. This was exactly the amount requested by the interest rates charged, so that the interest rate was not aimed at any speculative activity.

Nevertheless, in some cases when the interest rate is not justified by the high management's cost, the question to be considered is whether such lending activity is different from that of usurers; critics argue that the dislike for interest rates stems from the fact that the rich become richer and the poorest are excluded. Once we start from the households' basic needs, of course it is desirable to

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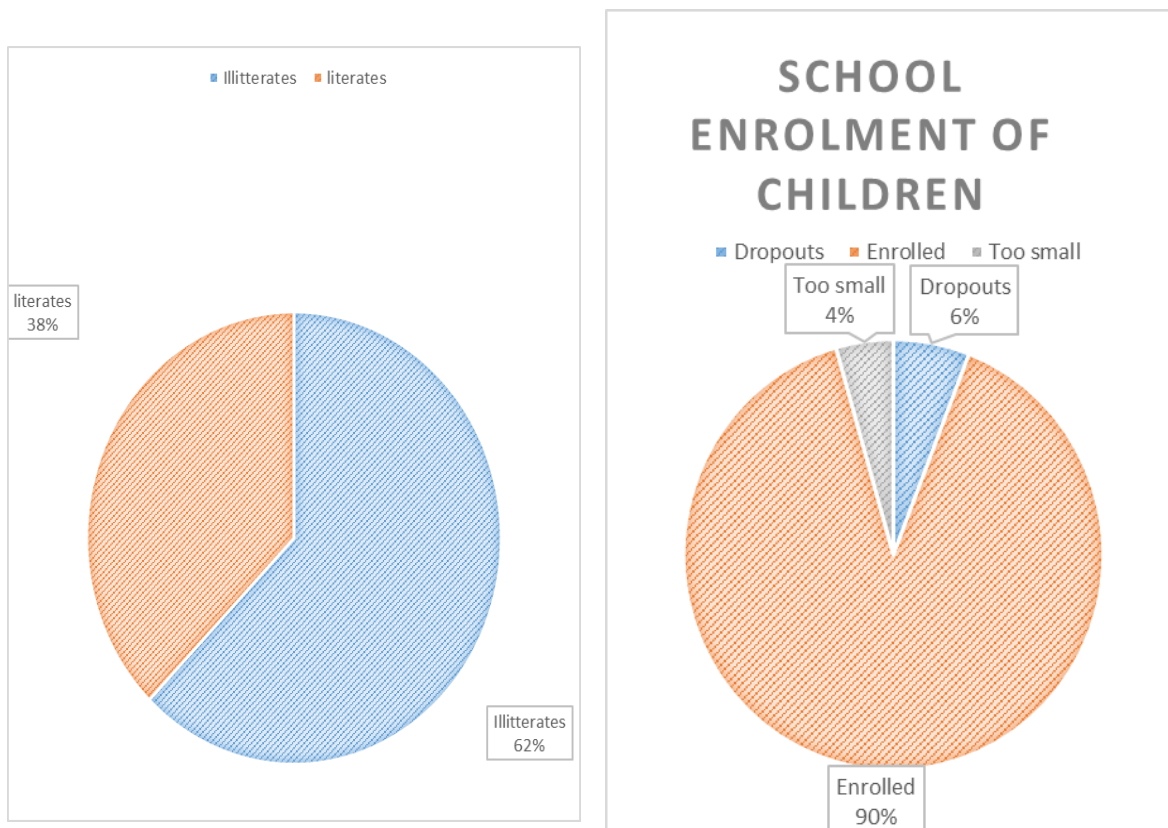
<sup>193</sup> Ivi pgg 67-68.

<sup>194</sup> See Aleem, I. 1993. "Imperfect information, Screening, and the Costs of Informal Lending: A Study of a Rural Credit market in Pakistan." In *The Economics of Rural Organization: Theory, Practice and Policy*. Oxford University Press.

establish the minimum interest rate. I refer to the poorest as households whose primary need is to buy food or medicines: those who have nothing to eat rather pay interest rates tomorrow and get the money now, because if you do not eat today probably will not be a tomorrow at all.<sup>195</sup>

## 6.8 Education: The winning aspect of every development strategy

Figure 32. Literacy level of Arbor women



From the information gathered through interviews, it is possible to say that the majority of women interviewed (43%) do not know how to read and write, even though a small percentage (7%) has affirmed to know how to read but not to write.

<sup>195</sup> Low interest rate are by far preferable also for the authors of Portfolio of the Poor”, Collins & Murdoch (2011).

Although illiterate rate is high, a positive trend was affirmed in children's education. This finding is of major importance in denoting the change that will bring a new generation to better living standards but most of all it will be a decisive factor in poverty reduction and are subsequently followed by social emancipation. Moreover, as we can appreciate from figure 25 (loan purpose), 12 women decided to join Arbor program to pay their children fees and most relevant, among them, 5 are illiterate coolies. This suggest how much is becoming important education in modern Indian society. Now I would like to compare these data with the State level and National one.

Concerning the literacy rate of Andhra Pradesh is 67.66 per cent in 2011<sup>196</sup>, increasing from the 58 per cent registered in 2001; indicators are below the national level 74.04 for total population recorded in 2011.<sup>197</sup> The literacy rate of the State is lower than that of all India literacy rate 72.99 per cent. A slow growth in literacy rate was identified during the last decade at State and national levels. The general literacy rates (7 years & above<sup>198</sup>) in the State are not very high and with one-third non-literate, the rank of the State is 33 among the 35 States and Union Territories of India in 2011. While the overall literacy rate works out to be 72, 99 %, the male literacy rate is 75.3% and that for females is 53.7%, showing a gap of 21.6 percentage points between the sexes at the national level. The gap is more extensive in rural areas.

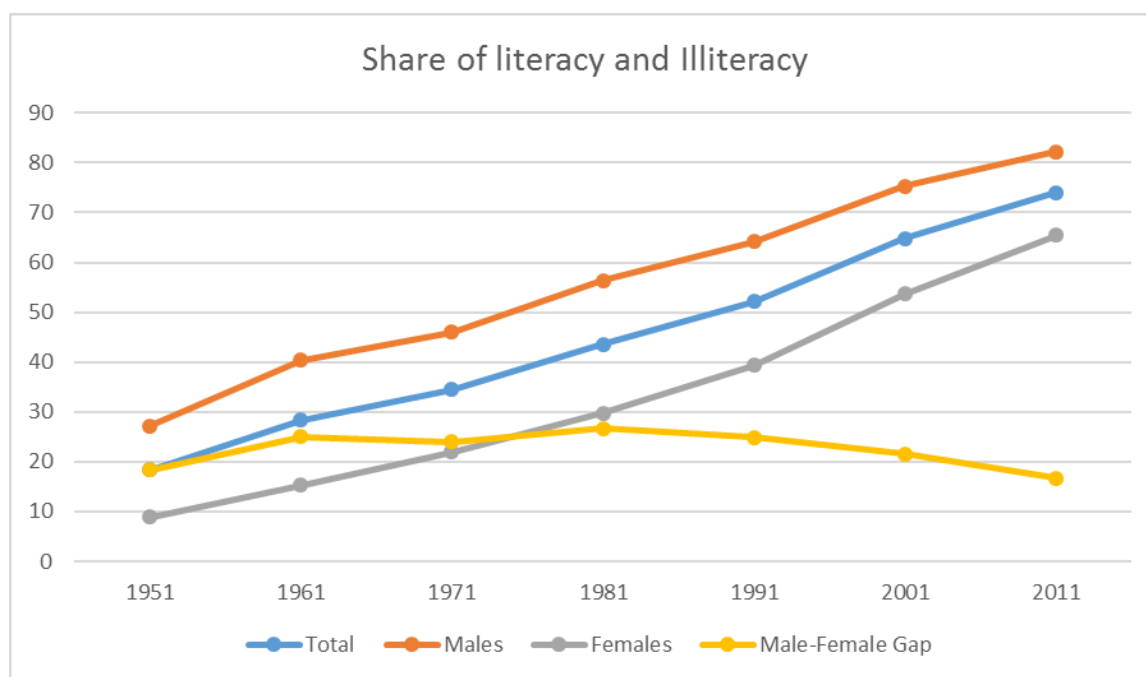
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<sup>196</sup> Indian Census 2011, [http://CensusIndia.gov.in/2011-prov-results/data\\_files/India/Final\\_PPT\\_2011\\_chapter6.pdf](http://CensusIndia.gov.in/2011-prov-results/data_files/India/Final_PPT_2011_chapter6.pdf)

<sup>197</sup> CIA World Factbook, Country profile, India, 2006.

<sup>198</sup> Since literacy rate is more meaningfull excluding children aged 0-6, in 1991 National authorities have decided to calculate literacy level for the population aged 7 years and above.

Figure 33. Literacy level and male-female gap



Source : Data from Indian Census 2011

The proportion of households without any literate adult was 29 percent in rural Telangana while it was 18.7 percent at National level in 2011-12<sup>199</sup>. Moreover, in the urban segment still 6 percent of households do not have any adult literate member. We should also consider that the latest indicators have emerged thanks to recent statistics maybe created to prove the *de facto* independence of the government of Telangana from Andhra Pradesh and thus could be influenced by political reasons.

However, from the interviews, It is clear that the whole sample attaches great importance to the education of children while most of the women have reported being unable to read or write indeed.

<sup>199</sup> Reinventing Telangana, Socio-Economic outlook 2014, Government of Telangana.

I have remarked that the rate of illiteracy among women in the program is very high and it was actually the main reason why I decided to conduct face-to-face interviews instead of handing out questionnaires to a larger number of respondents. As a result, I have recorded 69 personal interviews, translated from Telugu into English thanks to the translator.

## CONCLUSIONS

*“If you go out into the real world, you cannot miss seeing that the poor are poor not because they are untrained or illiterate but because they cannot retain the returns of their labor. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty.”*

— Muhammad Yunus, Banker to the Poor: Micro-Lending and the Battle Against World Poverty

In conclusion, we have seen that there is a greater penetration of microfinance sector in Andhra Pradesh and more specifically Telangana, than any other Indian State. Households' debt comes from various loans, not only MFI or government programs. The picture that emerges from field studies finds that families in Andhra Pradesh have too many debts that seem to be non-refundable considering their low income and / or ability to repay.

However, microcredit programs do not offer a solution to general problems of rural credit. Those programs do not provide large-scale funds for technological change and cannot supplant the informal sector or correct historical imperfections and fragmentations of rural credit market. Although all the weakness in its implementation, the Integrated Rural Development Programme was essential in the 80s; it provided credit access to millions of rural households and increased levels of purchasing power in rural India.

The most relevant conclusion is the Arbor case study warns against relying solely on microcredit to alleviate poverty in rural India. Nevertheless, the Arbor small-scale credit scheme have been the basis for useful and socially progressive experiments in social mobilisation.

The most important findings of this survey shows from the main negative effect of credit (external to Arbor activities) in over-indebtedness of local people, to the most positive and specific one, the increasing literacy level among people involved in Arbor program.

Over-indebtedness in this case, not only harms the poor clients, but also may causes women to lose confidence in Microfinance whereas losing hope to better life conditions, crunching their liquidity, and experiencing negative growth. It endangers both social and financial aims and the industry sustainability. It makes difficult for Arbor staff to decide whether increase the amount of loans disbursed or to maintain the same price because Arbor provide human value, which is more important than microcredit. Even increasing the amount of money disbursed, there will be always overindebtedness If nobody raises financial awareness, avoiding the risk of failing into the trap of multiple loans.

Proper measure is necessary to overcome such problem and to protect Arbor and their women for survival and sustainability of this program. We should not blame microcredit alone for over indebting local people. The absence or inefficiency of the regulatoy framework, and the political instability affects the social context and the effectiveness of any development program.

For this reason, I devoted one part of the thesis to the historical analysis of phenomena linked to the microfinance sector; meanwhile, I introduced economic, social and demographic of Telangana, with particular attention to Khammam district because it was were the field research took place. The fourth chapter analysed the project in details, explaining that Arbor program involve local people through different channels.

Among them, education and training is resulted as the winning point of Arbor strategy. One of the questions added to the questionnaire, compared to the previous research was about the children future, to let emerge the hope that women's children will be free from the noose of poverty in the near future. The question posed at the end of the interview allowed me to greet the woman with a sense of relief and hope of a better future. In the end, I can affirm that the most interesting aspect of realizing the Master Thesis in India has been to discover a country so dynamic and perceive the change that surely will occur in the coming years thanks to the education of the new generations.

## APPENDIX 1: ADULT LITERACY RATE (15 YEARS AND OLDER) (%), TOTAL, 1990-2015

Table 1: Adult literacy rate (15 years and older) (%), total, 1990-2015

Region	Country	1990	2000	2010	2015 projection
Arab States	Djibouti	...	...	...	...
	Egypt	57.0	67.2	80.3	82.1
	Iraq	...	84.1	86.0	85.6
	Mauritania	...	59.5	64.9	66.8
	Morocco	55.2	65.7	68.9	74.0
	Sudan	...	71.6	80.1	...
	Yemen	56.7	74.3	81.2	85.5
Asia and Pacific	Afghanistan	...	...	...	...
	Bangladesh	44.3	53.9	61.3	64.8
	Cambodia	...	84.7	82.8	84.8
	China	87.0	95.1	97.1	97.8
	India	61.6	73.4	75.2	81.4
	Indonesia	88.0	94.0	95.6	97.0
	Iran	74.3	83.5	89.3	93.6
	Nepal	49.2	62.7	73.0	77.1
	Pakistan	...	55.3	68.6	72.2
	Papua New Guinea	...	63.4	63.9	64.0
Timor-Leste	...	45.3	63.6	71.0	
Latin America and Caribbean	Brazil	...	88.4	90.2	92.1
	Haiti	...	63.1	53.4	64.4
	Mexico	90.3	92.4	94.4	94.6
Sub-Saharan Africa	Benin	39.9	47.9	55.2	58.7
	Burkina Faso	19.6	29.4	36.7	43.1
	Central African Republic	48.0	66.8	69.3	70.5
	Chad	18.3	39.4	45.0	47.9
	DR Congo	...	80.9	76.9	73.6
	Eritrea	...	65.4	78.7	82.5
	Ethiopia	36.0	50.0	49.1	56.9
	Gambia	...	49.0	60.0	64.1
	Guinea	...	42.9	52.0	57.8
	Guinea-Bissau	...	57.6	68.2	71.6
	Madagascar	...	76.5	67.4	66.8
	Mali	...	32.7	43.4	49.5
	Mozambique	...	65.6	70.8	74.0
	Niger	...	9.4	42.9	49.1
	Nigeria	67.7	66.8	72.1	74.1
	Rwanda	57.9	71.4	74.8	75.4
	Senegal	36.9	51.1	61.8	67.4
Sierra Leone	...	46.7	53.6	59.0	
South Sudan	...	...	...	...	
Togo	...	68.7	71.2	78.5	

Note: 1990 data refer to the period 1985-1994, 2000 data refer to the period 1995-2004, 2010 data refer to the period 2005-2010.

## APPENDIX 2: GUIDELINES FOR FACE-TO-FACE INTERVIEWS

TOPIC		
<b>Personal Data</b>	Area	Name
	Village	Surname
	Group	Age
	N° children	Age of the children
	Job(If any)	
<b>Job</b>	<ol style="list-style-type: none"> <li>1. When did you start your current Job?</li> <li>2. Did the Arbor program influenced your work?</li> </ol>	

<b>Program</b>	<ol style="list-style-type: none"> <li>1. When did you join Arbor program?</li> <li>2. How much is the total amount of money that you have received as an advance from Arbor ?</li> </ol> <hr/> <ol style="list-style-type: none"> <li>3. Do you remember the topic of the last Arbor meeting?</li> <li>4. How do you reach the advance day location?</li> <li>5. From whom did you borrow money before joining the arbor program?</li> </ol>
	<ol style="list-style-type: none"> <li>6. Which many loans do you have ?</li> <li>7. How much money do you take from them?</li> <li>8. How much time did you have to pay back the loan?</li> </ol>
<b>Savings</b>	<ol style="list-style-type: none"> <li>9. Did you save money before joining the program? If yes, where do you take your savings?If you had more savings what would you do with them?</li> <li>10. Have you ever had any problem in saving money for Arbor program? If yes, who helped you?</li> </ol>
<b>Purchasing Power</b>	<ol style="list-style-type: none"> <li>11. Can you buy goods that you couldn't afford before the Arbor program? If yes, which kind of goods ?</li> <li>12. Did you recently buy something very expensive ?</li> </ol>
<b>Health</b>	<ol style="list-style-type: none"> <li>13. Where do you go when you feel sick:</li> <li>14. How much money do you spend for you and your family health care?</li> <li>15. Would you invest your savings in any health Insurance?</li> </ol>
<b>Women Empowerment</b>	<ol style="list-style-type: none"> <li>16. Has something changed in the relation between you and your husband thanks to the Arbor program?</li> <li>17. Has the program strengthened the relationship between you and the other women in your village?</li> <li>18. Would you suggest the program to other women?</li> </ol>
<b>Social Capital</b>	<ol style="list-style-type: none"> <li>19. Have the relationships within the community changed since you joined the program?</li> </ol>
<b>Purpose</b>	<ol style="list-style-type: none"> <li>20. Why have you decided to join the micro-credit program?</li> <li>21. Has your purpose changed during the program? (After the first advance?)</li> <li>22. How have you used the loan?</li> <li>23. Who suggested you to join the micro-credit* program?</li> </ol>

<b>Education and Training</b>	<p>24. Can you read/write?</p> <p><b>25.</b> Do your children go to school? Which one (public/private...)? If yes, when did they start (the school)?</p> <p>26. Do your children work (inside/outside the house*<sup>2</sup>)? And before?</p> <p>27. How long do they play per day?</p> <p>28. Do they have any idea about their future job?</p> <p>*<sup>2</sup>If they work in the field, it is likely that they work the all day.</p>
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