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Poverty Alleviation: A Way Forward in India

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Abstract

For most underdeveloped countries, the low per capita income has many significant problems with the most serious being poverty which is in fact is closely associated with inequality. The affects of poverty are very often interrelated and hardly ever occurs in isolation and denies basic necessities of food, shelter and clothing along with socially marginalising the poor segment of society.

Therefore, to break this cycle of poverty, underdeveloped countries have to implement poverty alleviation programs not only to increase income levels among individuals or groups but also for poverty reduction amongst the poorest of the poor.

In India even with its high economic growth rate, still 21.9% or 270 million persons of the population are below the (Tendulkar poverty line). This paper will attempt to study the national schemes that have been implemented along with a brief understanding of the contribution of microfinance towards for poverty alleviation and its eradication.

Kewords: *poverty, financial inclusion, self help groups, microfinance, below poverty line*

Introduction

According to the estimates of The Millennium Development Goals Report 2013, globally about 1.2 billion people still live in extreme poverty (defined as subsisting on less than \$1.25 a day) of which 22 per cent are in developing regions. By the World Bank poverty line of \$1.25 (INR 76.11 approx. at INR 60.89 exchange rate) per day, the estimated number of poor in India in 2010 was 394 million, 32.7 per cent of the population. Using the \$1.35 per day Asian poverty line of Asian Development Bank (2008), the number of poor in India in 2005 is 622-740 million, which is 54.8 per cent of the population. The third estimate is official poverty estimate by the Planning Commission, Government of India for 2011-12, which is 21.9 per cent of the population. Therefore around 270 million people in India are below poverty line. With low per capita income, heavy population pressure, prevalence of massive unemployment and underemployment, low rate of capital formation, misdistribution of wealth and assets, prevalence of low technology and poor economics organization and instability of output of agriculture production and related sectors have posed major challenges for the rapid growth of Indian economy. Today India is facing major problems in reducing poverty.

India falls under lower middle income economy according to World Bank. It is second populated country in the world and around 70 per cent of its population lives in rural area depending on agriculture for their livelihood. As a result there is severe underemployment and per capita income is only USD 1489 (2012). This is not enough to provide needed nutrition to even one individual. It therefore results in chronic poverty, low level of education, malnutrition and gender inequality etc. One of the major reasons in this rural poverty can be attributed to low asset base. According to Indian Census 2011, about 17.8% of the urban and rural population did not possess any asset as specified in the census survey. Also, 41.3% of the population are not availing banking services and thus excluded for accessing financial services through formal channels.

India has been taking measure to improve this situation with the introduction of various policies, plans and schemes which have been showing some positive results but there is still a long way to progress. In this paper, an attempt is made to study the national schemes that have been implemented along with a brief understanding of the contribution of microfinance towards poverty alleviation and its eradication.

India: A Brief Understanding

Access to financial services has been observed to greatly contribute towards poverty reduction worldwide. Even though, it does not lead to directly increasing the net asset base of the marginalised, it allows them funding to be able to take important steps towards undertaking income generating opportunities and thereby becoming financially stable. Without this financial support, these poor individuals or groups or communities would not be able to meet their full potential.

As per the report by All India Rural Credit Survey in the mid 1950's, the Indian government took steps like the partnership of the state in cooperatives, nationalization of the banking sector in 1969, the direct lending initiatives to rural areas and the development of credit institutions. But in the early 1990's, India went through a very tough financial crisis in terms of balance of payments and deficits leading which in turn led to the introduction of reforms and the banking sector was transformed from collective banking to prudential banking. But this led to lower bank lending to the poor for almost a decade.

The poor segment's need for credit did not reduce and were and still is needed for both productive as well as for consumption purposes. The consumption loans are meant to fund household requirements like marriage, daily food requirements etc. The production loans are usually long term (term greater than five years), medium term (between fifteen months and five years) and short term (upto fifteen months). These loans in rural areas are meant for economic activities like agricultural activities, fishery, handicrafts, animal husbandry etc which assure repayment potential of the borrowers. The long term loans are normally needed to build a house, shed or repay loans or investment in land etc. The medium term loans are taken to repay purchase of small productive assets etc. The short term loans are usually meant for working capital needs like purchase of raw materials etc. The funding needs to be flexible in terms of lending as well as repayment to ensure higher repayment rates. As per the Planning Commission Report 2007, 67% of the credit requirement of the poor is meant for consumption purposes with almost 75% of this meant for emergencies like illness and household expenses. In lean season time and periods of unemployment, the poor are not even in a position to purchase subsidized gain under the Targeted Public Distribution System. As can be understood, the consumption loans are as much needed as the production loans and need to be made available through the formal financial system. The availability of finance encourages entrepreneurship and reduces dependency on wage employment. As per the World Bank estimates of 2002, the production purpose credit requirement was estimated to be Rs. 17,000 crore per annum as compared to the total credit outstanding of Rs. 5000 crore.

India has recognised the importance of providing this financial support and started taking steps in this direction. With majority of the poor being in rural areas, the government needed to focus on providing this section of the population access to credit through the formal financial system. Sustainable income generating activity was supported by programmes like Integrated Rural Development Programme (IRDP) meant for subsidized lending and many different programmes like Swaranjayanti Gram Swarozgar Yojana (SGSY) promoting self-employment. Alongside this, the microfinance concept emerged that was aimed towards the poor who lacked the access to financial services provided by the banking sector which could be due to inadequate banking retail outlets, the poor could not provide for adequate collateral and majorly due to the lack of literacy amongst the poor.

India's Approach

A. Microfinance in India

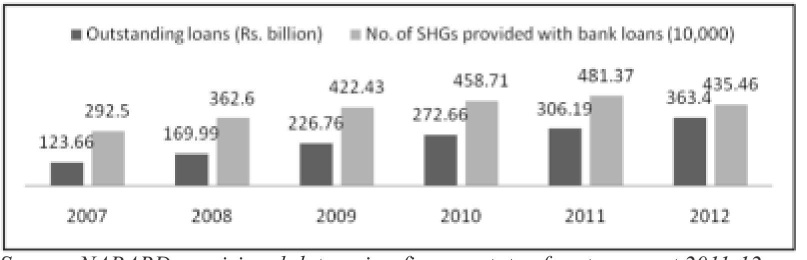
The micro-finance scene in India is dominated by SHGs through Banks linkage program with an attempt to build financial relationship between informal groups of people and formal agencies like banks for catering to the financial service requirements of the poor, especially women. SHG-Bank linkage model has emerged in India as a core strategy for the banking system to extend their outreach to the poorest among poor. The SHG – Bank Linkage Programme started as a partnership model between three agencies, viz, the SHGs, banks and NGOs.

Intervening to forge a linkage, National Bank for Agriculture and Rural Development (NABARD) was instrumental in the emergence of a very strong microfinance movement in the country. The linkage program combines the flexibility, sensitivity and responsiveness of the informal credit system with the technical, administrative capabilities and financial resources of the formal financial sector. It is a design relying heavily on collective strength of the poor, closeness of NGOs to people and large financial resources of banks. Further, the SHGs have also undertaken effective social mobilization functions contributing to an overall empowerment process. The banks have externalized what would otherwise have been high transaction costs for mobilizing savings of the poor, appraisal and sanction of loans and improved loan recovery through the financial intermediate role played by SHGs.

RBI and NABARD have been instrumental in the formation of SHG-Bank Linkage Programme (SBLP) and Joint Liability Groups (JLGs) of which the latter is meant for supporting microfinance institutions .It has also been mandated that 40% of the commercial banks aggregate net banking credit has to be lent to the priority sector and 10% to advances to weaker sections which is important towards the government's goal of financial inclusion. Below is the progress of these initiatives.

I. **Self Help Group-Bank Linkage Programme (SBLP):** In the year 1991-92, NABARD with the policy support from the RBI launched its pilot phase of the Self Help Group-Bank Linkage Programme (SBLP). The main purpose of the programme was financial inclusion through door step credit services meant for the poor rural households. The formal credit services were made available on a sustainable and cost effective basis with 100% refinancing assistance to banks for financing SHGs. Following the pilot phase, a working group was set up by the RBI in 1994 which came out with valid recommendations focusing on SBLP as a means to alleviate poverty. The growth as can be seen in Table 1 was accelerated from 2007 till 2010 but the year 2011 and 2012 have seen it slowed down. As per NABARD's annual report for 2012-13, more than 79.60 lakh savings-linked Self Help Groups covering 10.3 crore poor households. The total savings amounted to Rs. 6,551.41 crore. But with the last year reaching a plateau in terms of performance, the shift now in the sector is to focus on better regulation, governance and responsible practices.

Table 1: Self Help Group-Bank Linkage Programme implementation



Source: NABARD provisional data, microfinance state of sector report 2011-12

I. SHG-2: With the SHG-bank linkage programme being started more than two decades back, the guidelines have been revisited and revised based on several discussions with all concerned parties. The reasons for such a revision is due to poor coverage in many areas, problems like delays in account opening and sanctioning of loans even if previous loan has been paid on time, freezing of savings to act as collateral, membership in more than one group and no adequate assistance provided by banks etc. Therefore, with the introduction of the SHG 2 programme, many much needed changes can be implemented. The main changes include:

i. Voluntary savings by SHG members to facilitate the change from group savings to individual savings along with imparting financial education.

ii. The loans should cover all requirements of members and should be sanctioned for income generating activities, social needs like marriage, debt swapping etc

iii. Sanctioning of cash credit/overdraft system to provide funding in order to be more flexible.

iv. JLG's within SHGs should be encouraged for those members who have grown rapidly and need more finance than the other group members. The functioning of the SHG remains undisturbed.

v. Improving the risk mitigation system like self-ratings by members, audits by third parties, strengthen monitoring mechanism by lending banks and have well trained staff.

II. Women's SHG Development Fund[34]: The Women's SHG Development Fund with a corpus of Rs. 500 crore has been introduced in the Union Budget 2011-12 to tackle issues of inequitable outreach of SBLP with a focus on women in rural and backward areas (around 30 districts have been as identified by the Ministry of Rural Development). The fund shall be utilised for providing refinance to banks for first time loans given to women SHGs developmental activities, financing micro enterprises set up by Women SHGs and supporting the promotion of Women SHGs in the Project Area This project will be put into operation by NABARD along with Regional Rural Banks, Co-operative banks and commercial banks.

The microfinance sector in India has really evolved from only offering micro credit to now venturing into micro insurance, micro pension etc. Households that participate in this sector have been part of a steady growth process that has led to a certain level of economic, social and political empowerment. This in turn leads to a better standard of living and ultimately to a better economy as a whole. Financial institutions in India have been playing an important role in the microfinance programme almost three decades and by joining with informal delivery channels, have been able to provide the needed push. But at the same time, there should be stringent and stricter regulation in this sector to sustain this development.

A. Formal banking system: Financial assistance

In addition to microfinance movement in India, providing access to formal financial services and establishing a relationship between the banking sector and the poor has always been an important priority for Government of India (GOI). As defined by Dr. K.C Chakrabarty financial inclusion is the "process of ensuring access to appropriate financial products and services needed by vulnerable groups at an affordable cost in a fair and transparent manner by mainstream institutional players" which is needed for overall development. The GOI and Reserve Bank of India (RBI) have always been the pillars to establish linkage between the banking sector and the poor's accessibility to financial products. The banking sector along with financial institutions like National bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) has been supporting the government to meet its financial inclusion objective. But even with all these efforts, nearly 41.3% of India's population are still unbanked which is evidence that the existing financial system needs to evolve and develop more appropriate products to include the poor sections of society in the formal banking sector.

I. Basic Savings Bank Deposit Accounts: In November 2005, the RBI to include and attract vast sections of the population towards banking services advised banks to open "no-frills" accounts (NFAs) with nil or very low minimum balance. But the banks were free to decide which facilities to be offered to the bank account holders and therefore to remove this stigma associated with nomenclature, the RBI as of August 2012, introduced the Basic Savings Bank Deposit Accounts which has replaced the "no-frills" accounts. The RBI has brought about uniformity in rules for such accounts. There will be no basic minimum balance required to be maintained. Services like ATM or ATM-cum-debit card facilities, deposits and withdrawals, debit or credit through electronic payment channels along with deposits of cheques drawn on central or state government agencies or departments should be made available without a charge as per the circular. The withdrawal limit will be capped at four times a month.

A study conducted by CMF-IFMR in rural Andhra Pradesh showed that even with 78% of rural households having access to a formal savings account around 79% of these accounts were either opened to receive government benefit or increase the likelihood of receiving a loan but not for voluntary savings.

Nevertheless, the RBI has continued towards its goal of financial inclusion and at the end of the year 2012-13, 81.3 million basic savings bank deposit accounts have been opened with a savings balance of INR 18.2 billion. But there is still concern due to the fact that these accounts seem to be non operative as well as clients being unaware of the terms of these accounts. These barriers can be overcome through financial literacy along with the use of innovative technology to reach the vulnerable and poor.

II. General Purpose Credit Cards (GCC): The main purpose of the general credit cards is to provide for non-farm sector increase flow of credit towards entrepreneurial activity. It includes working capital as well as term loans. It is issued as a smart card like a biometric smart card compatible for use in the ATMs / Hand held Swipe Machines and capable of storing adequate information on entrepreneur's identity, assets and credit profile etc. There is no ceiling on the amount of loan to be taken and will be collateral free. The interest rates will be decided by the banks based on RBI guidelines. GCC implementation has been progressive with 0.9 million 31 accounts and Rs.25.8 billion outstanding amount as on March 2010 to 1 million accounts and 21.9 billion outstanding amount the following year and 1.3 million accounts and Rs.27.3 billion[1] outstanding amount as on March 2012 accounts.

III. ***Kisan Credit Cards (KCC):*** *The kisan credit card scheme is meant to make agricultural credit available to farmers. As per the Union budget of 2012-13, these cards had to be modified to smart cards to be used in ATM's and* hand-held swipe machines and capable of storing adequate information on farmers' identity, assets, land holdings and credit profile. The progress of the KCC implementation has been positive with 15.9 million accounts with Rs. 940.1 billion outstanding amount as on March 2010 and increasing to 20.3 million accounts with Rs. 1651.5 billion[7] outstanding amount as on March 2012.

IV. ***Business Correspondents (BCs)/Business Facilitators (BFs):*** To aid in the process of financial inclusion, the Regional Rural Banks (RRB's) have been permitted to use the services of BC's/BFs to provide financial and banking services. BC's/BFs can include NGO's, MFI's, SHG's, co-operative societies etc with the objectives of giving advice to villages to manage loans and investments, opening bank accounts with preliminary verification, helping SHG's to obtain loans etc. Also, Information and Communication Technology (ICT) based BC model has been implemented to promote door step delivery of services. The progress of the BC's implementation can be seen through an increase in number of agents from 33,042 as on March 2010 to 95,767 as on March 2012.During the same period, number of banking outlets have increased from 32,684 to 1,20,355. Further, ICT based accounts have increased from 12.6 million[7] to 52.1 million during the same period as well as ICT based transactions from 18.7 million[7] to 119.3 million[7].

B. Ministry of Rural Development

Under the Ministry of Rural Development, the Department of Rural Development has been developed with a mission to implement schemes for self employment, wage employment and infrastructure schemes meant for households and communities. It also provides support functions and quality services like assistance for strengthening of DRDA Administration, Panchayati raj institutions, training & research, human resource development etc for effective implementation of these programmes. The main programmes include Pradhan Mantri Gram Sadak Yojana (PMGSY), Rural Housing (RH), Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and Swaranjayanti Gram Swarozgar Yojana (SGSY)/National Rural Livelihood Mission (NRLM).

Pradhan Mantri Gram Sadak Yojana (PMGSY): As part of the poverty alleviation strategy, Government of India launched the Pradhan Mantri Gram Sadak Yojana (PMGSY). The main objective of this programme is to provide good all weather connectivity to all entitled unconnected habitations with a population of 500 persons and more. It looks at decentralized planning for rural roads implemented through the District Rural Roads Plans (DRRPs). In addition to government support, Asian Development Bank and World Bank are also providing financial assistance through loans. Table 2 indicates the progress of the PMGSY programme's implementation.

Table 2: Progress as on 31st December 2012

	Total Eligible	Projects Cleared (Sanctioned)	Completed
Habitations (in Nos.)	1,64,849	1,23,063 (75%)	89,071 (54% of eligible)
New Connectivity (km.)	381459 (approx.)	3,06,375 (80%)	2,22,382 (58% of eligible)
Upgradation (UG) (km.)	374844 (2,25,111 UG 1,49,733 Renewal)	1,76,267 (78%) of UG	1,44,406 (64% of eligible)
Financial Progress (INR crore)			
Value of project proposals cleared		Funds released (Programme)	Expenditure
1,45,629		1,02,913	96,676

Source: Ministry of Rural Development, Annual Report 2012-13[12]

II. Indira Awaas Yojana (IAY): Any individual has the right to adequate housing to live a life in dignity. To address this need, the Indira Awaas Yojana (IAY) was introduced to make available houses to below poverty line (BPL) families in the rural areas. With effect from 1st April 2013, Rs. 70,000 will be granted for construction of a new house to a BPL family in plain areas and Rs. 75,000 in hilly/difficult areas. In addition, Rs. 25,000 can be availed through loan at an interest rate of 4% p.a. also, for upgrading a kutcha house, a subsidy of Rs. 15,000 will be made available. The funding is shared between the centre and state in the ratio of 75:25 except in northern east states, ratio is 90:10. The government has also allotted 4% of funds to state government for administrative expenses.

Table3: Progress of Indira Awaas Yojana over the last 10 years

Year	Central Allocation	Central Release	Utilization	Target (No. of houses)	Houses constructed/completed
2002-03	165640	162852.86	279496.46	13.14 lakh	15.49 lakh

2003-04	187050	187107.78	258009.69	14.84 lakh	13.61 lakh
2004-05	246067	288310.02	326208.64	15.62 lakh	15.21 lakh
2005-06	273240	273822.58	365409.05	14.41 lakh	15.52 lakh
2006-07	290753	290753.06	425342.45	15.33 lakh	14.98 lakh
2007-08	403270	388237.01	546454.3	21.27 lakh	19.92 lakh
2008-09	564577	879579.39	834834.33	21.27 lakh	21.34 lakh
2009-10	849470	863573.99	1329236.4	40.52 lakh	33.86 lakh
2010-11	1005370	1013945.4	1346572.75	29.08 lakh	27.15 lakh
2011-12	949120	986477.8	1292632.74	27.26 lakh	24.71 lakh

Source: Ministry of Rural Development, Annual Report 2012-13

To promote women empowerment, for the year 2011-12, out of 32.66 lakh[12] sanctioned houses, 21.15 lakh[12] houses were sanctioned exclusively in the name of women beneficiaries (65.76%) and 7.31 lakh[12] houses in the joint name of both husband/wife. As of 31st January 2013, out of 25.34 lakh sanctioned houses, 15.04 lakh houses have been sanctioned exclusively in the name of women beneficiaries and 6.60 lakh in the joint name of both husband and wife.

I. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA): This act aims at improving the livelihood security by providing at least one hundred days of guaranteed wage employment in a financial year to each and every rural household in which its adult family members accept to do unskilled manual work. In its first phase in 2006, it covered 200 districts but has now extended to all rural districts in the country.

The progress during the financial year 2012-13 (upto 31st December 2012) is very positive with employment being provided to 4.16 crore (approx.) households with 141 crore person days of employment by providing 70 lakh works (60% for water conservation, 12% for irrigation facilities, 17% rural connectivity and 8% for land development) with a total expenditure of Rs. 25,000 crore. Also, the wage rate has increased from Rs. 65 in 2006-07 to Rs. 115 in 2011-12. Since all wages are recommended to be disbursed through bank or post office accounts, 8.54 crore bank and post office accounts have been opened.

The act has also aided women empowerment with women workforce participation for the financial year 1st April 2012 upto 31st December 2012 being 53% (It has been 48% from the time of the scheme's inception) which is higher than the statutory minimum requirement of 33%.The ministry has advised that all women MGNREGA workers should have bank/post office accounts and wages to be credited to their accounts. Also widowed, destitute and deserted women who qualify as a household, need to be provided with 100 days of work. Pregnant and lactating mothers need to be provided work which is less strenuous and close to their houses. It is also to be ensured that 50% of worksite supervisors are to be females. Also, women in SHG's are to be encouraged to participate in different activities like awareness generation, monitoring etc.

II. Aajeevika (National Rural Livelihood Mission): Ministry of Rural

Development, Government of India in the year 1980, implemented the Integrated Rural Development Programme (IRDP) which included many other programmes like the Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA), Ganga KalyanYojana (GKY) and the Million Wells Scheme (MWS). But due to the many programmes, the linkages could not be established effectively. In 1997, due to the recommendation of a centrally formed committee, all these programmes were merged into one programme namely the Swarnajayanti Gram Swarozgar Yojana (SGSY) programme. After accessing the performance of the SGSY and recommendations by the Prof. Radhakrishna Committee, SGSY was restructured as the National Rural Livelihood Mission (NRLM) and subsequently renamed Aajeevika. It was formally launched on 3rd June 2011 and was to be implemented on the 1st April 2013. The NRLM has been launched to promote poverty alleviation by developing robust institutions to deliver financial services and livelihood services to the poor especially women. NRLM looks at effective use of human and material resources to promote financial access to the poor thereby strengthening their livelihoods along with additional services like production and productivity enhancement services, technology, knowledge, skills and inputs, market linkage, etc.. It also focuses on poor women including SHG's and Federations at local and higher levels by building, supporting and reinforcing these institutions. It also looks at supporting SHG's not only though financial services but with comprehensive support in terms of developing of the groups, making their livelihoods sustainable, training activities for skill development of rural youth to take up self employment or for employment in the organised sector etc.

Each state can develop its own poverty reduction action plan by professionalizing their human capital at State, district and block levels with emphasis on persistent capacity development, essential knowledge and skills imparting along with identifying livelihoods prospects for the poor even in the organized sector and monitoring for any negative outcomes. This programme will be implemented in a phased manner starting in the intensive blocks (fully trained staff as well as covering a full universe of essential activities) but looking at covering non intensive blocks within the next 7-8 years as shown in Table 4. Table 4 shows the progress of the NRLM programme.

Table 4: NRLM implementation

S.No.	Output/ Outcome Indicator	Target for remaining period of 11th Plan	Tentative target for 12th Plan	Total target by 2016- 17	Number of BPL families
I	Outputs* (Lakhs)				
1	Total number of new BPL SHG's to be formed	12.25	15.75	28	280
2	No. of SHGs to be provided Revolving Fund support	12.25	15.75	28	280

	3	No. of SHGs to be provided Capital Subsidy	5.25	10.75	16	160
	4	No. of SHGs to be provided Interest Subsidy	10	12	22	220
	5	No. of rural BPL youth to be provided Skill Development Training	15	60	75	75
II		Outcomes* (Lakhs)				
	1	No of SHGs to be entering at Micro enterprise level	5.25	10.75	16	160
	2	No. of rural BPL youth to be provided placement support	15	60	75	75

Source: Ministry of Rural Development, National Rural Livelihood Mission (NLRM) A fresh lease of life for the rural people living below the poverty line (BPL) 2009-10
** Subject to availability of resources and cooperation from other stakeholders.*

To aid in women empowerment, NRLM has recognised that women are marginalised in society as well as polity and have been promoting exclusive women SHG's. NRLM focuses on women headed households, single women, women with disability and women in vulnerable categories like victims of trafficking etc. By developing SHG's which are exclusively women and supporting and nurturing these groups for long periods of time (at least 10 years) and through financial inclusion drawing the women out of poverty will lead to qualitative improvements in their lives. The Mahila Kisan Sashaktikaran Pariyojana (MKSP) which is an important part of NRLM has been supporting women farmers. For the financial year 1st April 2012 upto 22nd January 2013, out of the 5,69,912 beneficiaries (swarojgaris), 4,77,944 (84%) were women.

Conclusion

As can be seen through this paper, there have been approaches undertaken by the Government of India to bring about a reduction in poverty through its various financial inclusion initiatives and the challenge of poverty cannot only be met by one single approach. For example, in a rural area direct funding through formal sources may be too costly and borrowers may not be in a position to repay higher interest costs due to low and many a times irregular returns on capital invested. But this problem can be tackled not through subsidizing the cost of borrowing but instead customize financial products and services to meet the uneven cash flows associated with rural employment in agricultural activities. These services will improve the standard of living and bring these poor sections of society out of the clutches of poverty.

No country can grow to its full potential with some sections of its population being marginalised. In India, we see that government has invested heavily in growing the economy focusing on eradication of poverty as one of its major goals. It has to continue this way forward with the same momentum and look at innovative methods to reach out to the masses like linking formal and informal channels to offer access to funds along with products for insurance, savings etc. Efforts should also be made to find an alternative approach to substitute the need for collateral for loan sanctioning. In addition, access to financial products and services should also be accompanied by basic amenities like medical facilities, proper sanitation facilitates, clean drinking water, adequate food and education facilities. And as suggested by Yesudian (2007), poverty alleviation programmes need to address the issue of poverty from a social and economic perspective.

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