



MICROFINANCE: A WAYOUT TO POVERTY ALLEVIATION IN INDIA

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ABSTRACT

A large percentage of the country's population is still living in abject poverty, despite the country's tremendous economic development following the economic reforms. As of 2011, the Planning Commission reported that 21.92 percent of the country's population is still living below the poverty level (BPL). Microfinance is proven to be the most cost-effective and promising of the numerous poverty-reduction programmes that have been implemented. In India, microfinance has made huge progress.

The program's success is due in great part to the diversity of benefits it gives the impoverished. Involving all stakeholders, including NGO, bankers, socially-minded people, and government officials, the National Bank of Agriculture and Rural Development (NABARD) has been crucial in enabling different activities under the project on the ground. NABARD's programme is considered the world's largest in terms of reach. Additional programmes have been launched from time to time by the Indian government.

An attempt has been made in this article to explore the specifics of NABARD's micro-finance programmes in depth. Some of the issues that need to be addressed to improve the program's efficacy, such as impact evaluation, engagement of the private sector, and a greater focus on the severely poor, have been addressed. Other government-sponsored poverty-reduction programmes are briefly discussed.

Keywords: Poverty Alleviation, Microfinance, Self-Help Groups (SHG)

INTRODUCTION

A large portion of India's population lives in abject poverty, despite two decades of economic reforms and recent development. According to data provided by India's Planning Commission, 21.92 percent of the country's population lived below the poverty level in



2011-2012. ADB's April 2012 study shows that in 2010, 34.28 percent of individuals in rural India lived below the '\$1.25 a day poverty threshold', down from 43.83 percent in 2004-05.

In order to define poverty and the average level of deprivation among the poor, researchers from the Oxford Department of International Development have developed a concept called the Multidimensional Poverty Index (MPI). Among the criteria taken into account by the MPI are education, health, and the level of life of the population. A 2007 study based on this notion determined that 55.4% of Indians were MPI poor. Kerala has the lowest levels of multidimensional poverty, whereas Bihar has the highest levels. There are five Indian states that account for 50 percent of the country's MPI-poor: Bihar, Jharkhand Madhya Pradesh, Chhattisgarh, and Uttar Pradesh.

In the past, experts in the area have questioned the accuracy of data collection and the yardstick used to determine poverty levels. However, there is little question that there is a vast disparity in the distribution of wealth and the possibilities that come with it throughout the country's many sectors and groups.

Despite a GDP growth rate of 9 percent or more between 2004-05 and 2009-10, employment growth was essentially non-existent. According to the 2011 Census, there were 113 million jobless people in the United States. This is equivalent to 15 percent of the 748 million people in India who are working age (15-60 years old). Over 20 percent of teenagers between the ages of 15 and 24 were unemployed. The number of jobless youngsters was 47 million in absolute terms. India's NSSO statistics for 2011-12 reveals that just 17.9 percent of working individuals were employed on a regular pay basis. Of the casual workers, 29.9% were dependent on daily or sporadic job chances. Other self-employed individuals (52.2%) tended to be farmers or domestic helpers-a fallback in times of crisis. Clearly, strong GDP growth isn't translating into increased employment.

POLICY INTERVENTIONS BY GOVERNMENT & RBI

As a result of RBI's efforts, the poor now have easier access to excellent financial goods. Both NABARD and SIDBI have actively helped the Government in this attempt. Here are a few of them:

- In 1991, the RBI published a policy circular directing all commercial banks to actively participate in and offer credit to SHGs.



- The government encourages the National Bank for Agriculture and Rural Development (NABARD) to engage in microfinance, group creation, and economic activation activities.
- In 1996, the RBI classified financing to SHGs as a mainstream activity of banks under its priority sector lending.
- The Ministry of Women and Child Development, in collaboration with Rashtriya Mahila Kosh (National Credit Fund for Women), offers microcredit for rural poor economic empowerment.
- NABARD and UNDP have formed a partnership to promote financial inclusion in seven priority states: Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh. The collaboration's overarching goal is to improve access to financial services for the disadvantaged, particularly women and men from SC and ST groups and minorities.
- The RBI also encouraged banks to develop a plan for establishing a banking facility in every hamlet with a population of more than 2000 people by March 2011. By the end of June 2010, 7300 communities had been assigned to various banks for this purpose.
- To empower women and develop their SHGs, the Government of India established a “Women's SHGs (WSHGs) Development Fund” with a capital of Rs. 500 crores. NABARD is implementing the plan in 150 backward and left-wing extremist regions across the country. The scheme's goal is to foster effective and self-sustaining WSHGs by involving NGOs and support organizations, which will enable credit connection between these groups and banks. NABARD would offer a grant of Rs 10,000 per SHG to such NGOs, as well as cover the costs of training and other capacity-building initiatives.
- To promote financial inclusion, the Swarnajayanti Gram Swarojgar Yojana (SGSY) has been reorganized as the National Rural Livelihood Mission (NRLM).

MICRO FINANCING

Microfinance is the provision of a wide range of financial services to the socially and economically disadvantaged segments of society and their micro-enterprises, such as credit,



savings, insurance, and money transfer. NGOs lend a little amount of money to poor individuals for income-generating activities. Loan repayment, including interest, is typically collected on a weekly basis, and the rate of payment default by beneficiaries is exceptionally low since they are driven to return the loan by sequential lending and solidarity group pressure. In reality, since they have guaranteed access to credit, the impoverished are ready to pay greater interest rates than commercial banks.

Microfinance is sometimes referred to as "banking the unbankable" and "offering financial services to millions of impoverished individuals who are too poor to be served by traditional banks." This is a critical instrument for poverty reduction and social financial engineering. However, because poverty is a complicated issue, the relationship between microfinance and poverty reduction is not direct. Important elements that may impact fulfilling the goal of poverty alleviation include the distribution route, technique, and type of product supplied.

Microfinance as a poverty-reduction programme should also be assessed in terms of its service to individuals living below the poverty line (BPL). According to reports, just one-eighth of the recipients fell to the BPL category, compared to 95 percent in Bangladesh's Grammen Bank Program. Denial of credit due to a lack of collateral security, the distribution of non-productive loans to beneficiaries, procedural delays in the distribution of productive loans, charging high interest rates, the use of coercive recovery practises, and multiple loans to overextended borrowers are some of the shortcomings that impede the achievement of the microfinance goal.

SHGs

Throughout the country, microfinance has taken many forms. The formation of a SHG is one such example. SHG is an informal organisation of less than 20 individuals who volunteer in rural or semi-urban regions to save regularly in a group fund, lend funds to members, and eventually link their fund to a bank / financial institution for further credit. The committee agrees on the terms of loan from the corpus. When lending for a non-commercial activity, such as marriage, the interest rate charged is typically greater. The interest rate is reduced if the loan is requested to start a small business or to educate youngsters. The system instils a sense of self-worth in its members, particularly women, and serves as a method of creating



a long-term relationship between the financially disadvantaged and official financial institutions. Furthermore, SHGs have instilled in women the habit of saving, which has resulted in the growth of their competence and entrepreneurship.

SHG – Bank Linkage Programme (SBLP)

The SHG – Bank Linkage Programme (SBLP) was established in 1992 as a cooperation model initiative involving SHGs, banks, and NGOs with the following goals:

- SHGs to facilitate collective decision-making by the poor and ensure doorstep banking;
- Banks to provide resources for credit; and
- NGOs to empower the poor with proper capacity building

In this initiative, the Microfinance Institute (MFI) serves as a link between bankers and the poorest of the poor. Funds are made accessible to microfinance organisations, who are in charge of disbursing funds and recovering loans. The bank bears the risk. This has been NABARD's main initiative. NABARD continues to support this effort by promoting stakeholders and refinancing the plan.

Progress of Micro Financing

Tables A and B show the progress of the microfinance programme. As of March 31, 2011, there were more than 74.62 lakh savings-linked SHGs and more than 47.87 lakh credit-linked SHGs in the nation, reaching 9.7 crore impoverished families under the microfinance programme.

SPECIAL INITIATIVES BY NABARD FOR BACKWARD REGION

Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP)

In collaboration with partner banks, NABARD is supporting the Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP) for the promotion and credit linkage of SHGs, as well as the creation of SHG Federations, in certain districts of Uttar Pradesh. As of March 31, 2014, 1,05,996 SHGs had been promoted, including 34,417 credit-linked SHGs and 4,142 cluster level organisations.



“Priyadarshini” Programme

The “Priyadarshini” initiative for “Rural Women Empowerment and Livelihood in the Mid-Gangetic Plains” aims to empower impoverished women and adolescent girls holistically via the creation of SHGs. The International Fund for Agricultural Development (IFAD) and the Ministry of Women and Child Development (MWCD) of India get assistance from the International Fund. It is being implemented in five Uttar Pradesh districts (Bahraich, Raibareli, Shravasti, Sultanpur, and Amethi) and two Bihar districts (Madhubani and Sitamarhi). It aims to empower about 1.2 lakh rural impoverished women and adolescent girls holistically over an eight-year period by forming and nurturing approximately 12000 SHGs. A large variety of capacity-building programmes on group dynamics, social concerns, accounting, skill development, legal aid, gender issues, and other topics have been held.

Women SHGs in Left Wing Extremism affected districts

NABARD, in collaboration with the Government of India, is implementing this initiative in 150 chosen districts across 28 states. NGOs, in addition to facilitating financial connection between these organisations and banks, also function as a business facilitator, tracking and monitoring these groups, and are accountable for loan payback.

ISSUES TO BE ADDRESSED FOR IMPROVING EFFECTIVENESS OF THE PROGRAMME

Impact Assessment

The beneficial impact of microfinance is now being inferred using criteria such as the volume of loan given to beneficiaries, repayment rates, demographic segment reached, and so on. An impact evaluation has not been conducted to determine the percentage of persons living below the poverty line (BPL) who are covered by the microfinance programme. According to studies, only a tiny fraction (15%) of microfinance programme participants belonged to the BPL group, in contrast to the Grameen Bank Program in Bangladesh, where beneficiaries were primarily from the poor category. Microfinance Institutions (MFIs) are typically hesitant to lend to the severely poor who lack assets or business expertise. Their argument is that borrowers who have some assets and skills are more likely to succeed with microfinance. As a result, an impact evaluation is required to



determine the percentage of extremely poor or poorest of the poor beneficiaries who benefited from the microfinance programme.

Involvement of Private Sector

According to reports, the top ten private sector microfinance providers in the nation service fewer than 5% of the unbanked population. There is a strong need to include the private sector in microfinance programmes on a large scale. Corporates should be urged to participate in microfinance operations as part of their responsibilities under Corporate Social Responsibilities (CSR).

Capacity Building of Stakeholders and Infrastructure Improvement

Various research have led experts to the conclusion that microfinance alone cannot alleviate poverty. This is due to the fact that the majority of microfinance recipients lack the necessary skills and drive to be entrepreneurs. Identification of livelihood possibilities, motivating skills, technical training, market connections of inputs and outputs, and infrastructure are critical success factors. As a result, stakeholder capacity building is critical to the success of the microfinance programme.

Regional Imbalance

Despite the spectacular expansion of microfinance programmes in India, there remains some skewness in favour of the southern states. Large portions of the rural population in Assam, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh, and West Bengal are yet to be reached by the Programme. Even within a single state, there is a significant disparity in various locations. There is a need to bridge the coverage gap throughout the country as well as the imbalance generated within the State.

OTHER POVERTY ALLEVIATION PROGRAMMES

From time to time, the government has launched different poverty-relief initiatives. Some of the most notable programmes are listed below:



Swarnajayanti Gram SwarojgarYojana (SGSY)

In April 1999, the Government of India established SGSY, a centrally supported microfinance scheme, to replace IRDP, which had shortcomings such as non-viability of projects performed by unskilled labourers, inadequate targeting, bank apathy to providing credit to the poor, and so on. This initiative organises disadvantaged people into SHGs and provides them with financing, technology, infrastructure, and training. It is a credit-cumulative-subsidy programme designed to encourage self-employment and income-generating activities for individuals living in rural regions who are below the poverty line (BPL). SGSY focuses on lending money to organisations and developing micro-enterprises. The loan granted to beneficiaries under SGSY is more than that supplied to regular SHGs, although the incidence of loan default is greater. Non-performing assets in SGSY loans are recorded at 5.72 percent, compared to 2.9 percent in SHGs.

The performance of SGSY has been questioned by the Planning Commission for involving the majority of SGSY members in activities with low productivity and return owing to a lack of training and technology use. It is noted that just a tiny portion of SGSY funding have been used for training and capacity building during the previous decade. The poor's capacity to absorb credit for income-generating activities has not been enhanced, resulting in a credit-to-subsidy ratio that has not been achieved. Furthermore, the performance of SGSY has been found to be inadequate in states with a high prevalence of poverty, owing to the ineffective operation of organisations such as District Rural Development, Banks' insufficient efforts and Block Development Officers. In many situations, group members are encouraged to gather not for the purpose of spreading the notion of SHG, but for financial gain. The success of the SGSY programme in the southern states of Andhra Pradesh, Kerala, and Tamil Nadu is mostly attributable to the actions of several organisations that encourage SHG creation and bank connection.

National Rural Livelihood Mission (NRLM)

SGSY has been restructured as the National Rural Livelihood Mission in 2010. NRLM has been initiated by the Ministry of Rural Development, Government of India and is modeled on the pattern of Indira Kranti Patham (IKP), a poverty alleviation programme being implemented in Andhra Pradesh. Key strategies adopted in NRLM are:



- Thrust on creation of federation of SHGs,
- States to be provided with flexibilities in designing specific action plans,
- Provision of multiple doses of credit and introduction of interest subsidy for facilitating repayment of loans,
- Setting up of skill-training institutes for improving training and capacity building,
- Facilitating market linkage,
- Monitoring and evaluation process to be improved.

Creation of federation of SHGs has been envisaged in NRLM but the role of federation of SHGs as financial intermediaries has not been elaborated.

The Mahatma Gandhi National Rural Employment Guarantee (NREGA) Scheme

Acting as a safety net for rural households, the NREGA was signed into law in 2005. Every rural household is entitled to 100 days of employment at the statutory minimum wage, which is established by the appropriate State Government, under the Act. To each rural inhabitant who is interested in working, a job is guaranteed within 14 days of their request. Focus is on unskilled labour. For those who fail to find job, there is a severance package. Due to its right-based approach and provisions for openness and accountability, the act is noteworthy in many ways. In 2012-13, the programme covered 2.3 billion person days. As the world's largest public employment programme, this one is particularly noteworthy. After 200 districts in fiscal year 2006-07, another 130 districts in fiscal year 2007-08 and the remaining 263 districts in fiscal year 2008-09 were covered by the NREGA.

According to the 2011 Census, SC/STs make up 29.8% of rural India's population. The poverty rate among SC/STs is about three times higher than that of non-SC/STs. Most NREGA labour is done in the spring, with one out of every two workers coming from a SC or ST background. The NREGA Act is expected to have raised the consumption of SC/STs during the spring season by up to 30 percent and reduced their poverty by half. Its main objectives were to "provide livelihood stability for the poor" and "provide social protection for the most vulnerable individuals living in rural India." Act has been successful in achieving both goals. Despite this, it has not been able to deliver 100 days of employment each year for most households. Work was available for 100 days for only 9 percent of families in 2013-14. Each household spent an average of 43 days away from their home.



CONCLUSION

NABARD's SHG-Bank Linkage Program, which combines the official financial system with the informal sector, has become a national movement. In terms of outreach, it is regarded as the world's largest microfinance programme. It is now a tried-and-true method of providing unbanked rural clients with access to formal financial services. An impact evaluation of the programme is required to determine the extent to which microfinance has truly decreased poverty. In addition, it is necessary to estimate the percentage of the poorest of the poor who will benefit from the program's activities.

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Annexure

Table-A: Progress of Micro – Finance Programme (Rs. in Crore)

S. No.	Particulars	Self Help Groups (SHGs)									
		2007		2008		2009		2010		2011	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1.	Loans disbursed during year	11,05,749 (1,88,962)	6570.39 (1411.02)	12,27,770 (2,46,649)	8849.26 (1857.74)	16,09,586 (2,64,653)	12,253.51 (2,015.22)	15,86,822 (2,67,403)	14,453.30 (2,198.00)	11,96,134 (2,40,888)	14,547.73 (2,480.37)
2.	Loans Outstanding	28,94,505 (6,87,212)	12366.49 (3273.03)	36,25,941 (9,16,978)	16,999.90 (4816.87)	42,24,338 (9,76,887)	22,679.84 (5861.73)	48,51,356 (12,45,394)	28,038.28 (6,251.08)	47,86,743 (12,85,714)	31,221.16 (7,829.38)
3.	Savings Accounts with Banks	41,60,584 (9,56,317)	3512.71 (757.70)	50,09,794 (12,03,070)	3,785.39 (809.51)	61,21,147 (15,05,581)	5,545.62 (1,563.39)	69,53,250 (16,93,910)	6,198.71 (12,92.62)	74,61,946 (20,22,649)	7,016.30 (1,817.12)

Sources: Author's Compilation

Note: Figures in Parentheses indicate the share of SHGs covered under SGSY

Table-B: Progress of the Micro-Finance Programme (Rs. in Crore)

S. No.	Particulars	Micro – Finance Institutions (MFIs) [#]									
		2007		2008		2009		2010		2011	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1.	Loans Disbursed	334	1,151.56	518	1970.15	581	3732.33	779 (88)	10728.49 (2666.75)	469 (2)	8448.96 (843.77)
2.	Loans Outstanding	550	1,584.48	1109	2748.84	1915	5009.09	1659 (146)	13955.74 (3808.20)	2315 (139)	13730.62 (3041.76)

Note: # Actual number of MFI provided with bank loans would be lower, as several MFI availed loans from more than one bank
Figures in parentheses indicate the assistance of SIDBI to MFI

Sources: Author's Compilation
