Role of Government and Private Sector in Poverty Reduction in India.

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Abstract

Poverty reduction needs joint effort of government sector as well as private sector in most developing countries like India. Due to more populated nation like India it is very difficult for union government and state government to overcome the problem of poverty. Now a day's private sectors are developing more infrastructures which create cores of job. Poverty not only include financial resources to ensure sustainable livelihoods, but also hunger and malnutrition, limited access to education and basic services, social discrimination and exclusion in decision-making. In this paper role of government institution as well as private stake holders in poverty eradication has been carried out.

Key Words: Stake Holder, NDF, NGO, Microfinance etc.

Introduction

India has the one of the fast developing country in the world. India's 'first world' economy is oriented to the very highest standards of globalize consumption, and formal sector incomes and lifestyles reflect this. By contrast, the real incomes and 'lifestyles' of the very poor, particularly in rural areas, are comparable very low. Microfinance is often advocated as a solution to multiple social problems in India.

Poor Persons with access to credit can make investments in enterprises that bring them out of poverty. Before we understand the concept of micro-finance, it would be worthwhile to understand the term micro-credit as the two terms are closely related to each other. Poor people need micro-credit for various and different purposes. It may be to meet the major household expenses emergency needs or even basic livelihood support Based on these two systems of micro-credit is defined as the provision where a debtor takes money either from formal or informal sources of credit on unilaterally decided terms by the creditor". If we combine together positive aspects of both the systems like, low rate of interest, easy and periodical repayments with moratorium period, credit for income generating activities, easy process of disbursement, no collateral or security and less paper works.

THE EVOLUTION OF MICROFINANCE

The historical account of the emergence and growth of micro-finance sector at the global level was started after the emergence of the Grameen Bank, Bangladesh which was started as an experiment in 1976 and accorded a special banking charter in 1983. In 1981 NDF (National Development Foundation), Jamaica, was started with support of Pan American Development Foundation. In 1983 ADEMI (Association for Development of Micro Enterprises) was established in Dominican Republic, Santo Domingo with support from ACCION, an International Agency. In 1984 BRI (Bank Rakayat Indonesia) started micro-finance in Indonesia. In 1984, K-REP (Kenya Rural Enterprise Programme) was set up by USAID (United States Agency for International Development) to develop credit programmes for micro-enterprises through NGOs intermediation[4-6]. In 1986 ACEP (Agence de Credit Pour 'L Enterprise Privee) was established in Senegal with the support of USAID. In 1986 PRODEM

(Foundation for the Promotion and Development of Micro-Enterprises), which was established by USAID & ACCION International in Bolivia, started micro finance. Later on it was converted into a bank called Bancosol (Banco Solidario) in 1992. In 1987 IDH (Instituto de Desarrollo Hondurando) was started in Honduras with the support of Opportunity International. In 1992, BANPECO (Banco Nacional del Pequeno Comercio) that is, National Bank for Small Traders was renamed as BNCI (Banco Nacional de Comercio Interior), that is National Bank for Domestic Commerce and started micro-financing in urban areas of Mexico

In India Rural financial markets have been dominated by informal lenders over many centuries. The All-India Debt and Investment Surveys (AIDIS) present distributions of informal credit by six main lender types as landlords, agricultural moneylenders, traders, friends and relatives, and others. According to this survey, the low volume credit segment has been virtually controlled by the informal markets. The overall debt of rural households is 39% in the year 1981 from informal sources. Share of informal credit inurban areas is 30%. Informal moneylenders covered 70% of farmers' credit needs. However, various debt and investment surveys conducted over the periods had been showing that only in the last 2 decades there is some significant drop in the share of informal credit sources in the non corporate, rural segments. AIDIS 1991-92 shows that institutional credit in the rural segment has been increased to 66.7%. It may be due to the advent of SHGs and Government directed Poverty Alleviation Programs through banks.

Te rural economy has been surviving due to the presence of indigenous savings and credit systems for many decades despite its higher interest rates and usurious practices. The major reason for their success is easy access and informal nature. H‘Volume of Institutional and Non-institutional Credit in Urban and Rural Areas of India (1981-82)’ gives information on the major informal credit systems that exists even today especially affecting the rural and semi urban economy.

Global Acceptance of Microfinance

The universal appeal of microfinance stemmed from its ability to reach the poor without social collateral and generation of near full recovery rates through what has been described as a Win-Win proposition. The mainstreaming of microfinance worldwide and its global acceptance in development community is based on this Win-Win proposition. This concept of provision of sustainable financial services at market rates has been termed as 'Financial System' approach or 'Commercial microfinance'. It is claimed that this new paradigm of unsecured small scale financial service provision helps poor people take advantage of economic opportunities.

Role of microfinance programs [2].

Role of Indian Government:- The Reserve Bank of India's training arm (RBI), the College of Agricultural Banking (CAB), made me think a fair amount about government's role in microfinance. Undoubtedly, India's government has played a large promotional role in Indian microfinance. The creation and growth of self-help groups through NABARD funding is quite impressive. Since the early 1990's, over 20 million Indian women have received credit through the government's SHG programme. At the same time, the fastest growing segment of microfinance, private microfinance institutions, does not seem to receive much government support (or that much regulatory supervision for that matter).

Accordingly, I am doing a little research on the role of government typically plays in microfinance. CGAP has an interesting piece that provides examples of government practices in several nations (e.g., Bosnia, Armenia, and Brazil), which points out those governments often play 3 different types of roles

Protector - The article argues that governments should develop appropriate regulations, or adapt existing banking regulations, to protect the solvency of large institutions that collect deposits from poor people. (In India, the government has largely not played much of a protector role. One reason may be that private MFIs are not allowed to take in formal savings deposits.)

Provider –The college of Agricultural Banking argued to Indian government By using public sector funds that did not go to the priority sector designees (e.g., agriculture, low-income households) to finance self-help groups, India's government created the foundation for microfinance.

Promotional - This could include financing or creating policies that facilitate the growth of microfinance. Going with my points above, I think (and the CGAP piece points out) that India's government does do a lot to finance the sector. On the policy side, there is room further improvement with regards to policy in India, in March of 2007 the Union Government introduced the Micro Financial Sector Development and Regulation Bill 2007 in the Lok Sabha – the lower house in the parliament of India. To this point, the bill has not been signed or rejected; I believe it still sits in the Lok Sabha.

The Role of private sector

Microfinance in India is currently being provided by three sectors: the government, the private sector and charities[3]. These three sectors, as large as they are, have only a small fraction of the capital and geographic scale required to meet the overwhelming need for finance amongst India's rural poor. The top 10 private sector microfinance providers in India together serve less than 5% of the unbanked population of India – approximately 20 million clients. example, SHARE Micro fin Limited ("SHARE") and Asmitha Micro fin Limited ("Asmitha"), two of the five largest MFIs in India, have almost Rs 4,000 crore ($900MM) loaned to over 5 million poor women in 18 Indian states (prior to the crisis, the combined outstanding loan portfolio had been as high as Rs 6,750 crore ($1.525BN)).

Role of World Bank

Former World Bank President James Wolfensohn said "Microfinance fits squarely into the Bank's overall strategy. As you know, the Bank's mission is to reduce

poverty and improve living standards by promoting sustainable growth and investment in people through loans, technical assistance, and policy guidance. Microfinance contributes directly to this objective . The emphasis on microfinance is reflected in microfinance being a key feature in Poverty Reduction Strategy Papers (PRSPs) 14 realizing the importance
of microfinance; World Bank has also taken major steps in developing the sector

Role of Regional Bank

Other Regional multilateral development banks like Asian Development Bank also champion the cause of commercial microfinance. ADB outlining its policy for microfinance lends support to the logic by saying "to the poor, access to service is more important than the cost of services" and "the key to sustainable results seems to be the adoption of a financial-system development approach". The underlying logic offered in support of this is universally based on twin arguments i.e., a) subsidized funds are limited and cannot meet the vast unmet demand, hence private capital must flow to the sector and b) the ability of the poor to afford market rates.

Microfinance Institutionsin India

Swayam Krishi Sangam (SKS) is a microfinance institution that operates in rural India, designed based on the Grameen Bank model. This organization was founded in 1998 with the establishment of a women's banking center in the Medak District in the State of Andhra Pradesh, a region considered to be one of the poorest in India. An example of a success story is the experience of Gangapur Beeramma, a blanket maker of Gangapur. Having lost her husband, she is the sole head of her household. Her families one acre of land is infertile, and does not yield crops nor income for the family. As a result, the family depended on the minimal income earned from making blankets from the wool of their five sheep. A year ago, Beeramma applied to SKS for a loan of 2000 rupees ($US 42), and used the funds to purchase extra sheep wool. As a result, her family was able to produce more blankets than they could have otherwise, and this significantly boosted their income as well as their ability to repay the loan. This success led her to pursue a second loan of 6000 rupees to generate further income. Another example of how microfinance has changed lives is the case of Rapidly Siddamma. As an agricultural laborer, she earned only 20 rupees ($US .42) per day. Siddamma used borrowed funds from SKS to take on a range of activities that more than quadrupled her daily income. She took loans to purchase a goat, a mango tree from which she can sell fruit, and fishing nets to bring in a daily catch. As a result she now makes a profit of 100 rupees ($US 2.12) per day. SKSs mission is to provide opportunity, not charity. (SKS website) More specifically; they provide credit that allows the poor to initiate income-generating activities, rather than giving one-time grants that only ease their poverty in the short-term. They charge high-enough interest rates to cover their costs, in order to achieve a measure of financial sustainability that will allow them not to be overly dependent on donations. (SKS annual report). There are a multitude of other microfinance institutions. One of the fastest growing institutions is SHARE (Society for Helping Awakening Rural Poor Through Education). This institution was founded in 1989 by M. Udaia Kumar to help build skills among low-income entrepreneurs. Kumar grew concerned that the poor lack of access to funding hindered their skills development. After studying the model of the Grameen Bank in Bangladesh, he decided that SHARE should provide microfinance services such as credit and savings to the rural population of Andhra Pradesh. By 1996, SHARE had four branches operating throughout the region. One of its branches, located in the Guntur District, achieved financial self-sufficiency in 1997, covering all its expenses. As the rest of the branches strived for self-sufficiency, SHARE faced problems due to the fact that Indian law did not allow charitable institutions to earn a profit and did not acknowledge charitable institutions which undertook microfinance operations. As SHARE tax-exempt status was questioned by the government, they decided to incorporate as a public limited company affiliated with the Reserve Bank of India. Now that it had gained access to commercial funds, the organization was able to grow faster. As of February 2002, the organization had 57 branches operating in 13 districts, with 105,969 members, all poor rural women. The institution has a capital base of $US 3.3 million, of which $US 1.2 million was paid in by 26,034 women clients. 99% of total equity was contributed by the organization clients, with only 1% owned by external sources. Two representatives from their client group sit on the Board of institution, with the other 36% considered Moderately Poor. After about four years, only 7.2% of these clients were still considered Very Poor, with 56.8% having achieved the status of moderately Poor, and 36% actually becoming Non-Poor. (SHARE website) .

Evaluation of MicrofinanceInstitutions

There are generally three dimensions used to evaluate microfinance institutions. The first dimension is outreach, measured by the Directors, and so SHARE considers itself to be unique in being a microfinance institution which is truly owned and managed by poor women. In order for a woman to quality for a loan, she must have a family income under $7.50/month. The repayment rate for the institutions loans stands at 100% and the institution overall financial self-sufficiency is 96%. A study to assess SHARE impact found that over 76% of its clients have achieved a remarkable improvement in their standard of living. Of the clients in this study, 64% had been labeled as Very Poor when they became members of the

number of clients reached. Next is whether the MFI has achieved financial sustainability, so that it can continue to operate even when there are no more funds available from donors or the government. The last criteria are the impact that the microfinance institution has had in terms of raising its clients incomes and reducing poverty.

How Microfinance Can Be Improved

Several recommendations have been advanced to improve the operation of microfinance institutions. First of all, microfinance institutions need to ensure that their interest rates are high enough to cover the costs of lending. If rates are set too low, it prevents the institution from achieving financial sustainability and cripples its ability to provide additional capital to the poor. Therefore, the government should change regulations which set caps on interest rates, and allow the MFIs to set appropriate rates. A study of the SHGs (self-help groups) showed that when the poor had the decision-making power to set their own rates for lending to members of their groups, they recognized the need to set high rates to cover costs and compensate those who had invested their savings into the loan account. Also, the government should take care not to disburse subsidies and loans from the same financial institutions, in order to make a clear difference between grants and loans.

Conclusion

The Indian economy at present is at a crucial juncture, on one hand, the optimists are talking of India being among the top 5 economies of the world by 2050; Landon the other is the presence of 260 million poor forming 26 % of the total population. The enormity of the task can be gauged from the above numbers and if India is to stand among the comity of developed nations, there is no denying the fact that poverty alleviation & reduction of income inequalities has to be the top most priority. India's achievement of the MDG of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy.

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