Chapter I

CONCEPTUAL FRAMEWORK AND THE BACKGROUND OF THE STUDY

1.1 Introduction

Management of poverty alleviation is one of the most momentous areas of specialization in the area of development administration. The aim of the poverty alleviation programmes was to create employment among the unemployed and under employed people and to generate opportunity of earning to them. In 1995, the United National General Assembly adopted the resolution of poverty eradication (1997-2006).It was accepted by all other countries in the world. After five years, in millennium declaration, poverty was considered as one of the greatest problem for any country. In India, the subject of poverty eradication has been given emphasis in different five years plans. India is a vast country and the nature of poverty in the country was different. The informal economy in India is growing at a fast rate, employing 93% of the labour force in the country. However, informal economy workers, who contribute 63% of the GDP, still cannot benefit from the additional wealth they have contributed to generate. That is because they do not have access to credit to take advantage of economic opportunities. The problem, however, is more complex when viewed through the demographic and poverty trends in the country. One third of the world's poor live in India. The youth at the age range of 15 to 34 years constitute over a third of India's total population. Proportion of unemployment

among the youth is the highest in the country, especially among the urban man. Due to different complex nature of poverty situation in India, a number of measures were taken for alleviating of poverty. The two basic thrusts of the programmes are to secure to the targeted sections better employment and better livelihood and empower the people in the socio economic field. The component, empowerment of the women has been added in the ninth five years plan. The World Bank and the International Monetary Fund (IMF) have taken a combined effort to fight against poverty as an aim of the development policy.

In practice, it was seen that the urban poverty was proving increasingly obstinate in its decline. On one side, there is destruction of ever-new challenges being thrown up by the phenomenon of urbanization of poverty and on the other side, the crisis of resource is stunning the initiatives to counter those challenges. The urban areas are crowded because the rural people were also coming to these areas due to industralisation and commercial activities. The supply of cheap labour provided by them is one of the important contributing factors in urban prosperity. However, these poor people have taken shelter in slums and squatter settlements basis. They did not get the basic amenities, as the urban local bodies were not able to ensure adequate investment for increasing housing and other infrastructure facilities accordingly. According to the Consultating Group to Assist the Poorest (CGAP), only 0.01 percent of the urban poor have banking relationship, while rural areas account for 95% of micro finance outreach in India. In urban areas, lack of access to trading space for vendors and livelihood training further push the poor into poverty. There were many

social welfare policies like IRDP, DWCRA etc. for the rural area. Urban areas have been characterized by increasing population pressures, which are a result of high birth rate and migration of people from rural areas. However, until recent time's poverty alleviation schemes for these people were few and far between. However, the last decade has witnessed the introduction of schemes, which aims at uplifting the socio economic condition of the poor through encouragement and implementation of self-employment projects.

It must be confessed that the prospect of investing huge investments for generating wage employment during very short period is not possible. The alternative that best seems feasible is to generate self-employment for the urban poor by asserting in building up micro enterprises. Viable micro finance enterprises can be a source of constant income and improve livelihood levels. However building up of viable micro enterprises are not very easy.

Accessibility to finance has been considered as one of the major hindrances to development and growth of the Micro Enterprises (MEs) in all developing countries. The problems like technical expertise, infrastructure, insufficiency of raw material, absence of marketing avenues, quality control tend to haunt the micro entrepreneurs. All these problems ultimately turns out to be directly or indirectly a financial problem. Most of the poor people manage to mobilize resources to develop their enterprises and their standard of living over time. Financial assistance could enable the poor to leverage their initiatives, accelerating the process of building income, assets and other securities. Brugger (1995) argued that however the most glaring problem seems to be

the inadequacy of finance relating to fixed and working capital. This includes ignorance about the sources of finance and the sizes of finance from financial institutions, collateral securities, form and application for loans etc. This problem attributes to a practical difficulties arising from the discrepancy between the financial institutions mode of operation and the need of those LIGs (Lower Income Groups). For example, the financial institutes' borrowers have a regular source of income out of which the principal and interest can be paid off according to terms and conditions but the income of these poor people are not stable. A large number of small loans are needed to serve the poor, but lender prefers to deal with large loan in small numbers to minimize administrative costs. The financial institutes also look for collateral securities with a clear title, which LIGs don't have. Moreover, bankers consider the loan to LIGs is a bad risk involving high information monitoring costs of operation. Over the last few years, it is seen that when poor gets access to the credit at market rate, they repay their loans and used the proceeds to increase their income and assets. The non-availability of loan from financial institutes made them bound to take loan from informal sources at a higher rate of interest than market rate.

Downing (1990) said that most of the micro enterprises are not self-governing economic units but are parts of larger family or household units. The cash of one micro enterprise is frequently mingled with that of other household activities including other enterprises. Thus the financial needs of families are often seems to be the financial needs of the enterprise themselves. This is particularly true for enterprises owned and operated by women. Women micro entrepreneurs usually

engaged in activities which are agricultural resource based like kutti, making tobacco products, food processing, coconut products, bamboo and cane products, forest resource based activities like collecting of ayurvedic medicinal plants, rubber and gum, mineral resource based activities like stone crushing, making models out of plaster of paris etc. Recently, the NGOs and governmental agencies have tried to lead the women micro entrepreneurs in specialized skill based activities like pottery making, knitting, tailoring, painting, handicrafts or manufacturing based activities and supplying stationeries for offices and schools, like files, notebooks etc.

Micro enterprises usually have very small start up capital requirements. Liedholm and Mead's (1987) review of evidence in several countries found initial capital requirements ranging from $49 in Sierra Leone to$1104 in Jamaica. In contrast, the need of working capital is relatively large in comparison to fixed capital. Most urban micro enterprises operate on short term planning cycle, often daily and weekly.

The families that operate micro enterprises typically have lack of assets, especially marketable assets. Family members who operate micro enterprises, especially women, have serious time constraints because of household responsibilities and other engagement. These characteristics require substitutes for formal collateral, rapid loan processing procedure, and conventional location for financial office. Because of time and mobility constraints, micro enterprises need services that are located close to their places of business and that can process transactions quickly.

These problems can be addressed through micro finance schemes administered with an ultimate aim to alleviate poverty.

The new term 'micro-finance' is perceived to be a paradigm shift in the quality of delivery of finance to micro-entrepreneurs. The old concept of micro finance was to provide credit to poor people basically residing in rural and urban areas at subsidized rate of interest through public and government financial institutions. The new micro finance continues to target the rural and urban poor households, with emphasis on women borrowers, provision of finance for asset creation and on the principle of 'Borrower knows best' (Kaladhar, 1997). Essential features of modern MF concept includes delivery of credit and then facilities in a convenient and use friendly way, quick disbursement of small loans, recovery at high rates through peer pressure, incentive of access to larger loan after repaying the previous one, encouraging and accepting savings through groups and peer support and linkage credit with savings. Micro Finance also includes within its gamut entire range of financial services and non-financial services. These include entrepreneurship development, capacity building and skill up gradation to equip them with the necessary financial and marketing expertise to tackle micro enterprise problems.

Micro enterprise finance refers to strategies designed to create or expand small businesses that are unable to attract financing from commercial sources. Funding for micro financial institutes comes primarily from governments, the World Bank, and Micro Finance Institutions. Donors hope that lending by micro financial institutes, commonly called micro credit, will expand local economies in disadvantaged areas,

increase household income of borrowers, and create a base of entrepreneurs for future development. Strategies to increase the supply of capital to micro enterprises began over 30 years ago. Realizing that centrally planned development efforts funded by international development agencies were not making the poor better off, NGOs began developing strategies to bring small loans to poor entrepreneurs in the informal sectors of developing economies. In 1973, ACCION International may have been the first NGO to use micro credit as a development strategy when it began making small loans to businesses in Brazil (Snow, 2003). Loans from Micro Financial Institutes, often as small as $50, have been used to finance a wide range of income-producing activities, including produce stands, curbside repair shops, and milk and egg production.

1.2 Effectiveness Of Micro Finance

In November 1995 Micro credit summit, US first lady Hillary Clinton wrote that the micro-enterprise is the heart of development because micro enterprise programmes work, they lift women and families out of poverty. It is called micro but its effectiveness on the people is macro; we have seen that, it takes just a few dollars, often as little as $10 to help a women gain self-employment to lift her and her family out of poverty. It is not a handout, it is a helping hand. Poor people and specially the poor women were not considered as credit worthy or able to save and thus they are not considered to be a profitable market of credit. This forces them to fall in the trap of high interest and high collateral loan from moneylenders. The sin quo non of any anti poverty strategy is the irresponsible desire and innate capacity of the poor to

uplift their conditions. Therefore, the needs come for the innovative credit delivery system that deviates from formal collateral oriented lending institutions to informal structures.

Nair (2000) argued that the concept of micro finance has became popular among donors and practitioners for its two significant roles: i) in feeling the credit market in the developing countries of its myriad disfunctionalities that arise mainly from political interferences and ii) in replacing the state sponsored direct credit programmes for poverty alleviation, which are seen as inherently non-viable because of high doses of subsidies.

It has been felt all over the world, today those micro finance performances can simultaneously help in alleviation of poverty and empowering the women. When a micro-enterprise is financed, there is inevitably a series of benefits that accrue to women micro-entrepreneurs. These are as follows:

i) The poor women get access to the loan.

ii) It empowers them in their family as well as in the society.

iii) The poor beneficiaries form some homogeneous group.

iv) They come out from the vicious circle of the loan of moneylender.

v) They get the exposure of the world outside of their home and that make them a different one.

In a host of studies, regarding problems of women micro entrepreneurs, the following has been pointed out as serious impediments to establishment of micro enterprises.

(1) **Improper location:** Since their enterprises are located near to their house, they face problems regarding source of raw materials, marketing etc.

(2) **Lack of access to productive Resource:** Usually the women micro entrepreneurs don't have an asset base that they can use as collaterals for getting credit or loans.

(3) **Lack of skill:** Due to lack of education, most of the women are not aware of the technological development, latest production process and other emerging fields. It is one of the barriers for their performance.

(4) **Lack of time:** Women are engaged for long hours for discharging household responsibilities.

(5) **Social barrier:** In a society, where tradition and custom dominate the logic, women suffer from men dominance. Not only the men also the old women restrict the women from entering into economic activities.

Micro Finance (MF) plays the role of the saviour by enabling the provision of credit and other financial services of very small amount to poor enabling them to raise their income and improve their standards of living. In recent time, MF is performing an important role in economic development of developing countries. They are the promoters of economic development. MEs are the most important sector of the

economy with large employment potentials, better utilization of economic resources and income and regionally balanced development orientation contributing towards achieving sound and sustained macro economic growth. MEs either in the rural or urban areas are facing acute problems regarding marketing, product competition, cost of production, inadequate market, infrastructure etc.

Financial services are needed to finance their income-producing activities, build up assets, stabilize consumption, and protect against risks. These services are not limited to credit, but include savings, insurance, and money transfers. At the 2008, 'Innovations for Poverty Action/Financial Access Initiative' Micro finance Research conference, economist Jonathan Morduch (2008) of New York University noted there are only one or two methodologically sound studies of microfinance's impact.

Sociologist Jon Westover (2008) found that much of the evidence on the effectiveness of microfinance for alleviating poverty is based in anecdotal reports or case studies. He initially found over 100 articles on the subject, but included only the 6, which used enough quantitative data to be representative, and none of which employed rigorous methods such as randomized control trials similar to those reported by Innovations for Poverty Action and the M.I.T. Jameel Poverty Action Lab. One of these studies found that microfinance reduced poverty. Two others were unable to conclude that microfinance reduced poverty, although they attributed some positive effects to the program. Other studies concluded similarly, with surveys finding that a majority of participants feel better about finances.

Some other studies made on the effectiveness of micro finance programmes bring out positive gains specially for women.

Khandker (2000) examined 1,638 households that participated in two waves of the BIDS—World Bank1991/92 and 1998/99 survey in Bangladesh. Khandker found that moderate poverty in the sample villages declined 17% between the two waves of the survey, and extreme poverty declined 13%.Among those households that participated in the microfinance programs, the poverty rate declined 20% in the same period, with more than half of the nearly 3% annual moderate poverty decline among participants attributed to the microfinance programs alone. He further found that access to micro finance programs contributed to the reduction of both moderate and extreme poverty of individuals (particularly women) as well as for the village as a whole—where inflow of microfinance funds to rural areas impacted the local economy— and raised per capita household consumption for both participants and non participant

Dichter, T (1995) argued that some proponents of microfinance have asserted, without offering credible evidence, that microfinance has the power to single-handedly defeat poverty. This assertion has been the source of considerable criticism. In addition, Littlefield, Elizabeth, Morduch, Jonathan and Hashemi, Syed (2003) said that research on the actual effectiveness of microfinance as a tool for economic development remains slim, in part owing to the difficulty in monitoring and measuring this impact.

The BBC Business Weekly program reported that much of the supposed benefits associated with microfinance, are perhaps not as compelling as once thought. In a radio interview with Professor Dean Karlan (2006) of Yale University, a point was raised concerning a comparison between two groups: one African, financed through micro credit and one control group in the Philippines. The results of this study suggest that many of the benefits from micro credit are in fact loaned to people with existing business, and not to those seeking to establish new businesses. Many of those receiving micro credit also used the loans to supplement the family income. The income that went up in business was true only for men, and not for women. This is striking because one of the supposed major beneficiaries of microfinance is supposed to be targeted at women. Professor Karlan's conclusion was that whilst micro credit is not necessarily bad and can generate some positive benefits, despite some lenders charging interest rates between 40-60%, it isn't the panacea that it is purported to be. He advocates rather than focusing strictly on micro credit, also giving citizens in poor countries access to rudimentary and cheap savings accounts. (BBC.co.uk)

Thus, the introduction of microfinance from traditional financing has been welcomed in many countries has raised certain pertinent questions. Can these micro finance programmes reach at its desired level? Can the programme properly implemented and administered? Whether the beneficiaries can benefit from these programmes through financing and operation of micro enterprises? Can the beneficiaries empower themselves in the society in real sense? What are the limitations of the schemes and how the schemes can be made more effective?

This study will try to answer to these questions by empirical investigations related to the operation of the scheme Swarna Jayanti Sahari Rojgar Yojana (SJSRY), a holistic micro financing and poverty alleviation programme for the urban poor.

1.3 Statement Of The Problem

Lack of funds is often considered as one of the main obstacles frustrating the urban poverty reduction strategies of the Government. Research shows that a significant proportion of funds, available through Central Government and state progrsmmes as well as international agencies, are simple not being used. Efforts to find reliable data about the extract amount of Central and State Government and external donor funds available have met with varying degrees of success. But estimates suggest that approximately 60% of available funds are spent at the national level and 30% at city level.

An example, Integrated Rural Development Programme (IRDP) was such a scheme, which was introduced in the rural area in the year 1979-80 with a target to remove the poverty. The programme aimed at reaching the people who were under the poverty line. The scheme allowed subsidy to the poor people for asset creation. Block level governmental agencies had been given the prime responsibility for implementing the scheme. But it was found that the scheme did not fulfill the target. The scheme was unsuccessful for the following reasons:

i) The block level officers did not select the beneficiaries properly and they did not evaluate their income generating activities. The whole process was dominated by political interference.

ii) There was a general perception that when the government introduces any welfare scheme through bank loan, the general opinion is that the loan has not to be repaid. So, most of the beneficiaries did not repay the loan and did not utilise the money in proper way. Most of the loan amount was used for personal consumption.

iii) The banks have not shown real interest and initiatives regarding the scheme, which they used to do in case of their personal loan.

The IRDP was one time operation of loan. The relation between the bank and the beneficiaries were not found in this scheme. Narasimham committee(1998) has argued that "the experience with the implementation of government sponsored programmes has developing a sustainable ongoing bank-client relationship, The IRDP and other governmental sponsored programmes have become one shot operation of lending."

So, a scheme should be implemented that will build the bank- beneficiaries relationship and that will not be a one shot loan. In the scheme the Swarna Jayanti Sahari Rojgar Yojana, it was found that the loan grants were in the form of multiple injection system.

The role of donors has also been questioned. The Consultative Group to Assist the Poorest (CGAP) recently commented that "a large proportion of the money they spend is not effective, either because it gets hung up in unsuccessful and often complicated funding mechanisms (for example, a government apex facility), or it goes

to partners that are not held accountable for performance". In some cases, poorly conceived programs have retarded the development of inclusive financial systems by distorting markets and displacing domestic commercial initiatives with cheap or free money.

Against this background, it is worthwhile to discuss the following issues:

i) How much money is available for urban poverty alleviation?

ii) What is the utilization pattern of the funds available under various programmes?

iii) What is the efficiency level of various organizations and local bodies who disburse funds?

iv) Why is the uptake of the funds low in many states and cities and where do the bottlenecks occur?

v) Are the poor benefiting?

It is important to analyze whether recent changes in poverty alleviation programmes meet the requirement of the ground reality. In fact, there have been significant changes in the norms and stipulations of the problems that are likely to alter the thrust, coverage and targeting. A broad overview based on the aggregate data at the national level suggests the following changes:

There is greater emphasis on the promotion of self-employment to generate long term economic earning capabilities among the poor. The basic idea is that Government money should not be used as a one shot help to the poor to cross the poverty line. Wage Employment Programmes are being discouraged as these are seen as long term subsidization measures. Greater emphasis is placed on self employment

activities. Group based activities are encouraged as these are likely to ensure better compliance of norms and lower default rates on loan repayment. Encouraging women groups to participate is also expected to ensure better cost recovery and higher benefits to the women and children through family bonds.

This policy decisions clearly aim at introducing and operating comprehensive urban micro finance programmes. Switching over from the traditional system of financing to the micro financing programmes is welcomed at all levels. However, the tasks of financial inclusion through micro finance schemes are not completed by introduction of a programme alone. The failure of such programme and problems faced by other programmes naturally raise certain pertinent questions. Whether a microfinance programme can give the desired impact? Have the new programmes been properly formulated and implemented? Can the beneficiaries improve their financial position by setting up new micro enterprises? What are the problems faced by the beneficiaries in implementing the programmes? What are the perceptions of the beneficiaries regarding the programme?

The outcome of these discussions would help the Government both Central and State, municipality officials, local officials, NGOs and others involved in programme implementation to draw lessons and suggestions for improving the effectiveness of the scheme and underline the need for policy focus on urban poverty.