# Microfinance *and* Inclusive Development

## - *an Alternative Summit*

Perspective Papers

Development with Dignity

# PREFACE

An interesting but serious question raised by the stakeholders in the microfinance/development sector is what has gone wrong with microfinance. The likes of Compartesmos in Mexico and elsewhere has triggered this critical question. In the recent past, we have witnessed the anguishing spectacle of undue emphasis on commercialization of microfinance with eye on portfolio and profits. The clients have been exploited and pushed to debt trap to serve the commercial objectives. Microfinance programmes and institutions have been straying from the development course.

The original intent and purpose of microfinance being fighting the poverty seems to have been lost in this debate and so also the principles and perspectives of microfinance interventions. Microfinance with the hind sight of practice from poverty school perspective have opened up a host of development perspectives which we haven't visualized in the beginning. Those perspectives are much broader and larger touching wide gamut of social development issues. Microfinance Alternative Summit intends to recapture and reinforce those practices and perspectives emerging including social capital, social development, livelihoods, asset building for poor and the enabling environment to trigger and nurture and advance community based owned and rooted microfinance work. This booklet is an attempt to present those perspectives to inform the development debate of microfinance interventions.

NRLM SERP INAFI

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# Social Development Perspectives for Microfinance

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## INTRODUCTION

Poverty is a multidimensional phenomenon. Comprehensive strategy is required to address the poverty not only with the focus on economic but also with social, cultural and political dimensions. There are three perspectives of poverty as per the UNDP's Human Development Report, 1990 - Income perspective, basic needs perspective and capability perspective. Basic needs such as food, shelter, cloth, health, water, education and literacy, and unemployment etc are to be focused with gender perspective to address the poverty. As the millennium development goals provides comprehensive framework of addressing poverty with social dimensions, there is a greater need for microfinance sector to make paradigm shift from addressing only economic dimensions of poverty. Economic development alone will not address the poverty unless there is an integrated approach into the microfinance programme.

Social capital provides greater scope for graduating the microfinance into livelihoods finance and development finance integrating the social development perspective. Along with economic indicators, the social indicators such as life expectancy, maternal mortality, infant mortality, nutrition, quality expenditure on food, literacy, gross and net enrolment in schools, gender issues, access to public health services, safe drinking water etc needs to be integrated as social development indicators for assessing the impact of microfinance programme. As the target clients for most of the microfinance programmes are women and children and family as a unit from the socially disadvantaged communities, there should be conscious efforts by the stakeholders of microfinance to redefine the microfinance initiatives with social development focus.

The advantages of integrating the social, welfare, cultural and political dimensions of poverty into the microfinance initiatives bring scope for greater growth and sustainability into the programme. It also provides scope for contextualizing the social dimensions of microfinance programmes. The best strategy is to consider the MDGs framework for integrating social issues of poverty into the microfinance programme for its efficiency and effectiveness. The appropriate social capital structure would enable the communities to take up the development agenda in their hands with the collaboration of other stakeholders.

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## 2.0 SOCIAL CAPITAL FORMATION

Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidences shows that the social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital in its simplest form, an individual acquires social capital through participating in informal networks, registered organizations, associations of different kinds and social movements, and it represents the sum of these experiences. During this process democracy might emerge and individuals might have the opportunity to get legitimate rights and benefits. Social capital created within a social structure, such as reciprocity or mutual aid, increases the opportunities for collective action. It is only in this decade that many institutions, with their roots in the non-governmental social sector, have emerged with a focused mandate to create an alternative system that addresses the needs of the poor. In India this emerging sector, is still nascent and has not reached anywhere the scale required to significantly address the divergent needs of the poor across the country. Several new organizations have to enter the sector, and existing ones grow in scale and effectiveness, for the sector to mature as an industry within the economy. Without the foundation and orientation of strong people institutions, the mega problem of the unorganized sector cannot be addressed in a sustainable manner.

**2.1 Status of Social Intermediation:** The poor sections of the society are largely unorganized. The unorganized sector largely comprise of coolies, construction workers, rag-pickers, hawkers, menial workers - people involved in an innumerable variety of tasks and employment's having no fixed employer, these workers are casual, contractual, migrant, home-based, own-account workers who attempt to earn a living from whatever meager assets and skills they possess. Poverty is widely prevalent in unorganized sector is a well-established fact and families in the unorganized sector live lives of vulnerability and uncertainty with low level of income, scale, education. To address the gaps, it is wiser to look at the status of the stakeholder's initiatives and the issues involved in different streams

***2.1.1. Demand stream:*** Demand stream includes the clients who are the unorganized. Capacity building of demand stream includes preparing the clients, organizing them into either SHGs or NHG'sor Joint Liability Groups and building the capacities of the people organizations such as self-help groups and their people institutions for successful interface and collaboration with the supply stream. As part of ensuring smoother and sustainable support from the supply stream building a strong demand stream is a pre-requisite. The poor people especially women needs to be organized and prepared before extending institutional funds. This means not only providing elementary skills of mainstream management, accounting etc. but also the positive framework of attitudes and belief systems towards effective functioning and to build a good climate of organizational culture.

The present status of the existing capacity of the demand stream, the gaps in their capacity and also the constraints faced are captured in the following framework.

| Status | Gaps | Constraints |
|---|---|---|
| • Poor are unorganized<br>• Less knowledge on mainstream linkages<br>• Lack of belief on self management | • Poor leadership skills<br>• Low management, implementation and enterprise skills<br>• Lack of interface skills | • Policies – less conducive<br>• Lack of support / access to formal sector<br>• Resources starvation<br>• Absence of enabling environment (Capacity building, Marketing, Product promotion etc.,) |

Majority of the NGOs, MFIs, government agencies like DRDA, Women Development Corporations involved in organising the unorganized have the primary purpose of addressing the poverty and focus on social development of the urban poor. The capacity building involve identifying the urban poor, motivating them and organising them into groups, initiating savings and credit operations, and finally arranging for linkages with institutional finance. The process of capacity building also involves motivating the members, animators, building the local leadership and strengthening the local organizations to sustain on their own.

***2.1.2. Supply stream:*** Supply stream includes corporations, mainstream institutions, banks, cooperatives involved in delivering support to the clients. Capacity Building for supply stream institutions would go beyond training and would cover a visioning, perspective building, skill up-gradation. There has indeed been good amount of flow of institutional finance from commercial banks and regional urban banks to the unorganized sector in both urban and urban context through various credit linked subsidized government programs. Ineffectiveness of these programs in serving the unorganized sector has now been well documented. This comes from factors like target fulfillment, centralized control and procedure bound approaches. In so far as, microfinance institutions are concerned diverse approaches in delivering credit is witnessed. This calls for different levels of professional capacity, systems, operational management and capacity building for the development actors.

The present status of the existing capacity of the formal mainstream institutions and micro finance institutions, the gaps in their capacity and also the constraints faced are captured in the following framework.

The question that arises with this scenario is that what then needs to be done to revive the interest and involvement of the mainstream institutions to make available the institutional support to unorganized sector.  It begins with changing the attitudes and mindset of the mainstream that urban poor is bankable and banking with urban poor is a

| Status | Gaps | Constraints |
|---|---|---|
| • Fewer dispositions to innovation in development activities.<br>• Subsidized character<br>• Policies rigid and inflexible<br>• Lack of orientation to models<br>• Have adequate resources | • Lack of perspective and attitude<br>• Faulty approaches<br>• Inadequate capacity building of internal system<br>• Not reaching the urban poorest.<br>• Less urban poor mainstream management skills | • Manpower<br>• Inflexible rules, regulations and procedures<br>• Negative mindset<br>• Lack of experience<br>• Resource constraint for capacity Building |

viable proposition. This calls for radical orientation and change of mindset, which need exposure to successful demonstrated intervention with unorganized urban poor attempted by the NGOs in the recent past.

**2.1.3. Enabling stream:** Enabling stream includes the NGOs and institutions involved in promotional and development of groups and people institutions through social intermediation. The regulatory and government bodies, policy-making institutions also form part of the enabling stream as they play critical role in providing favorable policy framework and supportive environment, which enables the growth and development of the microfinance sector. For sustained growth of the institutional finance to the unorganized sector the enabling stream is also sine qua non. The promotional stream of NGOs are found to be having the need for capacity building from the perspective of running developmental programs through primary groups and their people institutions. The competence level of organizing systems and structures for formation of the groups and nested institutions is essential to build the strong and sound Federation of primary groups.

The present status of the existing capacity of the enabling stream of facilitating NGOs the gaps in their capacity and also the constraints faced are captured in the following framework.

| Status | Gaps | Constraints |
|---|---|---|
| • Weak planning and Management skills<br>• Good knowledge in community organisation<br>• Weak mainstream management skill<br>• Small and low outreach | • Less knowledge on legal and regulatory framework<br>• Lack of business promotion skills | • Resource constraint (human andmainstream)<br>• Inadequate content for capacity building<br>• Lack of training infrastructures |

**2.2. Process of Social Intermediation:** Social intermediation sets the foundation for other development initiatives namely financial inclusion, livelihood intermediation and to have effective slum governance and convergence of different actors involved in the development process. Toward this the following process is adopted.

***2.2.1. Organising the Unorganised:*** People serve many functions in people centered development. They are instruments for distributing power within society by strengthening the economic and political power of the marginalised. They are the training grounds for democratic citizenship and the institution building blocks of democratization. They create demands for greater responsiveness to grassroots concerns, providing the collective bargaining that enable to negotiate with the representatives for their entitlements. The focus of organising the unorganized is to create sound local institutions managed by people at slum, ward and at Urban Local Body level, which will link with mainstream institutions. The following principles are followed for building localized institutions:

***2.2.2 Design the primary units and build them first:*** It is very critical to define the size, structure and the details of local governance and management systems of the 'primary units' to begin with. Once these details are worked out, suiting to the local context, a lot of efforts need to be put to promote and nurture these primary building blocks to develop institutions from grassroots. For e.g.: Primary savings and credit groups of 15-20 members at hamlet level are the 'primary unit' for promoting Community Mainstream Institutions in Indian context.

***2.2.3. Building 'Nested Institutions' of poor at multiple levels:*** Creation of people's institutions at different levels is critical to address the issues of powerlessness and isolation, which are two important causes of poverty. These institutions need to be created at different levels managed by the local community through building the local leadership. These nested institutions facilitate co learning, sharing the leadership capacity and worker and gives scale advantage.

These institutions created at each level compliment the role of the other and each one acts as independent institutions with interdependence on each other for sustainability. These local institutions could be hosted into superstructures. In addition to acting as local mainstream institutions, these institutions would build a strong demand system at the local level to address the issues of poverty collectively. They could influence both the local banks and government system in their favor.

***2.2.4. Emphasize on Member ownership, control and decision making:*** These institutions have to be owned and controlled exclusively by urban poor and benefits are provided only to members. The process of decision making vested with the members only. Members contribute regular savings and equity contributions to facilitate lending operations. The products and services are suited to the specific needs of the members and designed by themselves. For ensuring effective day to day management of mainstream transactions, accounts and book-keeping local people are hired by the members. These 'local bureaucracy' reports and responds to the 'local governance' controlled by members.

Due to the local control and ownership, many of the issues related to sanctioning of loans, selection of activity, utilization of loans, ensuring timely repayment and managing mainstream operations profitably are addressed locally in a more simple and effective manner. This would ensure timely and adequate credit, repeat support and designing of need based savings and credit products.

***2.2.5. Involve support institutions for sustainability:*** The role of support institutions is very critical to build and ensure sustainability of community mainstream institutions. A facilitating organization has to first initiate the whole process of building these localised institutions. In most cases an NGO plays this role. Over a period the roles of this organization get evolved and other support institutions like banks, government would be involved. Many roles of these organizations gets evolved and devolved over the growth process.

Mainstream development administration deals directly with the individual members with the help of their staff for the poverty alleviation programme and it does not recognize informal collective bodies and their role in economic upliftment of urban poor. Legitimate formal bodies are in no way close to the action and also to the people. Formal representative bodies are not promoting participative democracy either for taking decisions or for action by linking formal institutions with functional informal forums.

### 2.3. Policy Propositions for Social Intermediation:-

***2.3.1 Promotional Costs for organizing the community:*** The success of large scale development can happen only when the investments in communities' in terms of organising and building their organisations happen. The foremost challenge is lack of promotional costs required to promote the groups and their nested institutions. Typically promotion of a federation of 200 groups with 4000 members for a period of 3 years till it reach sustainability would need an investment of Rs 4 millions. These costs are critical to build the social capital and organise the urban poor to enable them to address poverty. Another challenge is lack of capable NGOs and trained manpower to organise and enable the communities and their organisations on the principles of mutuality, self help and sustainability.

***2.3.2 Debt Swap for Debt Trap:*** The poor lives with and dies with debt. It is not so much debt per se, but the price paid for the debt, which makes them urban poorer. The predatory lending practices - usury by indigenous moneylenders have been perpetuating the legacy of poor's debt bondage. The issue of usury has been before us for long. This continues to remain as a significant causal factor in compounding the problem of poverty. The present scenario continues to be one of grave concern as the issue still proves to be elusive and intractable. Though access to credit has helped partly in addressing this age old problem, poor continue to be mired in the debt bondedness owing to the historical and cultural factors. More than anything else, unshackling the urban poor from the clutches of usurious money lenders will remain a challenge. Debt consolidation packages need to be devised along with supportive policy measures and enforcements to see that all the poor are out of clutches of moneylenders for ever.

***2.3.3 Coordinated efforts by different stakeholders:*** Poverty reduction is everybody's business and responsibility and can be achieved only through constant coordination and cooperation between various stakeholders like government, banks, NGOs and community organisations. The roles have to be clearly defined and mutually reinforcing. Government must not implement the programmes directly in the field directly, rather facilitate and build the NGOs and civil societies to take on. Banks need to take a proactive role in meeting the promotional costs along with government in building the required social capital and be flexible and innovative to reach the urban poor and work through the groups and their people institutions.

***2.3.4 Social security - addressing vulnerability:*** Support to the introduction of new products to address social security, especially as they may offer new opportunities to reach the urban poorer brackets of potential clients is required from the mainstream and other social investors. Health setbacks are impacting on income flow and affecting the capacity to earn and consequently the repayment performance. The potential of health insurance products to minimise / avoid such eventualities need to be fully explored and exploited. Similarly, creative savings products and pension schemes are to be designed depending upon the context and efficiently operated systems and procedures.

***2.3.5 Interrelatedness of development issues:*** The interventions so far have also brought out the inter relatedness of development issues like enhancing livelihood opportunities urban development, infra-structure development including housing. Microfinance provides a platform on which other development themes can be initiated. There are certain themes in which micro finance can play a crucial role.

Thus Social intermediation has a timeframe of one to three years which has deliverables of organizing the urban poor, promoting democratic systems for decision making, to realize the power of collective action and above all it sets the foundation for sustainable growth by relating with mainstream institutions.

## 3.0 FINANCIAL INCLUSION

**3.1. Introduction:** Poverty reduction is the complex and not warrants efforts from civil society institutions alone but also from state and private agencies. Despite making significant improvements, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population namely unorganized sector is believed to be acting as a constraint to the growth impetus. Access to affordable financial services - especially credit and insurance - enlarges livelihood opportunities and empowers the urban poor to take charge of their lives. Financial inclusion imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence, financial inclusion is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable growth in the country.

Access to affordable financial services is highly important to improve the quality of people's life. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Financial inclusion is aimed at providing banking / financial services to all people in a fair, transparent and equitable manner at affordable cost. It has the two key components that include access to financial services at affordable price from the banking system and financial literacy as also financial counseling. The basic purpose of financial inclusion is to reach out the financial services especially savings, credit and insurance services to the excluded category of population. Typically, financial inclusion in India is characterized by the following:

3.1.1. Lower outreach by financial institutions/MFIs/SHG/NHG Bank Linkage Programme in comparison to below poverty line (BPL) and low income population.

3.1.2. Financial inclusion is characterized primarily as either general access to loans (mostly consumption or consumer loans rather than livelihood loans) or access to savings accounts. Very few risk management and vulnerability reducing products are available to urban poor.

3.1.3. Access to finance is primarily a bridging resource for many low income groups.

***3.2.*** **Status of Financial Inclusion:** There are a variety of reasons for financial exclusion. From the demand side, lack of awareness, low incomes/assets, social exclusion, illiteracy act as barriers. From the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes are common reasons for exclusion. All these result in higher transaction cost apart from procedural hassles. On the other hand, the ease of availability of informal credit sources makes these popular even if costlier. The requirements of independent documentary proof of identity and address can be a very important barrier in having a bank account especially for migrants and slum dwellers.

The formal credit with its inherent inclination to target orientation, central control, procedure strict approaches finds it difficult to cater to the needs of the urban poor which are organically different from other classes of people. Formal financial institutions play limited role in serving the urban poor. In fact they are permanently out of formal financial system because of their overdue from subsidized loan. The following tables details the operational cultures of the three major players (banks, government and urban poor are given below:

### *3.2.1. Operational culture in Credit Systems*

| Banks | Government | Urban poor |
|---|---|---|
| • Target approach<br>• Limited Role in client identification<br>• Low accountability<br>• Low monitoring<br>• High Transaction Cost<br>• Responsibility ceased once the loan is disbursed<br>• Small clients - high risk<br>• Small clients - inability to offer collateral | • Subsidy as motivation<br>• Image building among the urban poor<br>• Political mileage<br>• Write-offs/remissions thereby vitiating recovery climate | • Credit from banks perceived as non-refundable grants from Government<br>• No self-chosen activities but as recommended by government intermediaries<br>• No fear of legal actions<br>• Temptation to misuse credit<br>• Effective interest rates were high and inversely proportional to repayment period of the credit<br>• Real Transaction cost was higher than perceived |

Financial institutions are not having a comparative edge to direct lending to the poor due to small loan size, say tow thousand to five thousand rupees per family, higher number of families to cover , say more than thousand families per branch, high transaction cost and longer processing times, lack of personal touch with individual borrowers and branch based lending and no outreach mechanisms as that of Grameen bank of Bangladesh or BRI in Indonesia. The most important reason for indifferent performance is that these institutions are not customer driven: for them serving urban customers is more of a "social obligation" than a business proposition.

***3.2.2. Regional Imbalances:*** The regional spread of the SHG/NHG – Bank Linkage Programme is uneven as about 52% of the credit-linked SHG/NHGs are located in the southern States of the country. There is a need for a better distribution of group formation and linkage efforts especially in the northern, central, eastern and northeastern States. There is a need to invest more in capacity building programmes in these areas. For this, it is essential to build training capabilities in these regions by identifying or promoting new training institutions.

***3.2.3. Livelihood promotion among members of Primary Groups:*** Many NGOs are trying to promote micro enterprises for advanced members. But their experience is rather limited. The critical constraining factor is that the members face a lot of problems in marketing of their produce besides low level of skills. There is a need to evolve a methodology for promoting micro enterprises to create livelihood and employment opportunities among the members besides imparting relevant skills and developing their risk taking abilities.

***3.2.4. System for monitoring:*** With a view to improve the information base and introduce data based monitoring at the primary group level, there exists a need to draw up a time bound programme for upgrading quality of book keeping and introducing an MIS which provides timely and accurate record of transactions. So its need of provide a technology platform for recording transaction. However, there is a need for systematic monitoring of SHG/NHGs so as to maintain high loan recovery level.

***3.2.5. Capacity Building of Members:*** Currently, there is a significant emphasis on capacity building for bankers, NGOs and Government officials involved in promoting and financing SHG/NHGs. The time has come when there is a need to focus on capacity building of members as many of them are maturing and the business levels of the groups are increasing. There is a need to identify ways and means of improving the quality of groups consistent with rapid growth and balancing sustainability with easier financial access.

***3.2.6. Technology for financial inclusion:*** As a large number of the weaker and disadvantaged sections of urban society suffer from financial exclusion, there is a need to bring about financial inclusion using technological inputs, on a massive scale, over the next 5 years. This means that every urban family will have at least one member of the household with a bank account. This 'no-frills' bank account is expected to enhance access to deposit account, low cost credit, micro insurance, safe money transfers, and financial counseling. Technological innovations such as smart cards, biometric IDs, mobile handsets and urban kiosks that can help control costs are crucial for a safe and rapid scale up. Pilot projects on various technological interventions in urban areas are already underway.

***3.2.7. Low bank loan per member:*** Under Bank Linkage Programme, the average size of bank loan per group is low at Rs.61, 679 which translates to Rs.4, 405 per member. Small per capita loans do not enable the members to overcome poverty or acquire capital assets. Government, bankers, Non Government Organisations etc. need to join hands in the collective efforts for the economic upliftment of members through various repeat cycles of credit combination.

***3.2.8 Micro insurance products:*** Primary groups still do not have access to insurance services, which are crucial for security and sustainability of these groups. According to a study conducted in 2003, over 82% of households surveyed did not have any insurance cover and practically none of the urban poorest households surveyed, had any insurance policy. There is a serious need to introduce micro insurance products and bring together various players in the insurance sector for supporting pilots for development of composite insurance products, which cater for life, health, crops, assets and accidents. Such a product which could be subsidized as a welfare measure by the Government for members would be ideal for the urban poorer segments of the urban population who cannot invest in multiple insurance policies.

***3.2.9. Federation of SHG/NHGs:*** In order to ensure the sustainability of the primary groups they are federated at ward level. As the federations are larger bodies and are also registered one, it brings identity and also helps in enhancing the social status. Ensuring the culture of self regulation through people management system and making them self reliant are the important roles of SHG/NHG federation. They help to a great extent in facilitating the primary groups to reach out to mainstream financial and development institutions. They also contribute to the creation of pro-urban poor policies by different financial and development institutions.

***3.2.10. Initiatives of Reserve Bank of India in promoting financial inclusion:*** The RBI Annual Policy Statement of April 2005 first brought the issue of financial inclusion to the notice of banks explaining that 'banking policies tended to exclude rather than attract vast sections of the population (RBI Circular, 2005-2006). Three major moves were thus initiated. Firstly, a 'No Frills' basic banking account was extended to all 'unbanked' households wherein the minimum balance required was nil or extremely low. Secondly, 'Know Your Customer' (KYC) norms were relaxed so that the needs of migrated households that cannot establish their identity or their address formally could be accommodated.

**3.3. Recent Developments on Financial Inclusion:** The Finance Minister in his budget for 2007-08 has announced the setting up of two funds for FI's; the first called Financial Inclusion Fund for developmental and promotional interventions and the other called Financial Inclusion Technology Fund to meet cost of technology adoption of about $ 125 million each. The scope of these funds is being worked out. Setting up of financial literacy centers and credit counseling on a pilot basis, launching a national financial literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently under way for furthering FI.

One of the ways in which access to formal banking services has been provided very successfully since the early 90s is through the linkage of Self Help Groups (SHG/ NHGs) with banks. SHG/NHGs are groups of usually women who get together and pool their savings and give loans to members. Usually there is a NGO that promotes and nurture these groups. The recovery experience has been very good and there are currently 2.6 million SHG/NHGs linked to banks touching nearly 40 million households through its members.

***3.3.1. Business Facilitator Model: Eligible Entities and Scope of Activities:*** Under the "Business Facilitator" model, banks may use intermediaries, such as NGOs/ Cooperatives, community based organizations, IT enabled urban outlets of corporate entities, Post Offices, insurance agents, depending on the comfort level of the bank, for providing facilitation services. Such services may include (1) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counseling; (iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Groups/Joint Liability Groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of Self Help Groups/Joint Liability Groups/Credit Groups/ others; and (viii) follow-up for recovery.

As these services are not intended to involve the conduct of banking business by Business Facilitators, no approval is required from RBI for using the above intermediaries for facilitation of the above services.

***3.3.2. Business Correspondent Model: Eligible Entities and Scope of Activities:*** Under the "Business Correspondent" Model, NGOs/ MFIs set up under Societies Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits may act as Business Correspondents. Banks may conduct thorough due diligence on such entities keeping in. view the indicative parameters given in Annex of the Report of the Intern, Group appointed by Reserve Bank of India (available on RBI website: *www.rbi.org.in)* to examine issues relating to Urban Credit and Micro-Finance (July 2005). In engaging such intermediaries a: Business Correspondents, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

In addition to activities listed under the Business Facilitator Model, the scope of activities to be undertaken by the Business Correspondents will include (i) disbursal of small value credit, (ii) recovery of principal/collection of interest (iii) collection of small value deposits (iv) sale of micro insurance, mutual fund products, pension products/ other third party products and (v) receipt and delivery of small value remittances/other payment instruments.

The activities to be undertaken by the Business Correspondents would be within the normal course of the bank's banking business, but conducted through the entities indicated above at places other than the bank premises. Accordingly, in furtherance of the objective of increasing the outreach of the banks for micro-finance, in public interest, the Reserve Bank hereby permits banks' to formulate a scheme for using the entities indicated in paragraph above as Business.

### 3.4. Phases in Financial Inclusion

| S. No. | Phase | Focus | Activities | Outcomes |
|---|---|---|---|---|
| 1 | Initiation | Developing working relationship based on shared agenda and mutual benefits | Exploring organizations and its systems.<br>Establishing linkages with limited groups.<br>Tracking each other on their systems and procedures. | Flow of products and services.<br>Emerging relationships. |
| 2 | Stabilisation | Sustaining relationships and expanding the spectrum and depth of the services | Frequent visits<br>Joint meetings to address issues of mutual concern.<br>Establishing sound systems to expand relationship. | Linking more no. of SHG/NHGs.<br>Frequent visits by each other.<br>Enhanced flow of products and services. |
| 3 | Collaboration | Institutional collaboration | Collective programme review.<br>Participation in each other event.<br>Establishment of fast track systems to reach scale. | Relationship is not individual centric.<br>Appreciation of each others system.<br>Reaching scale through shared planning and agenda. |
| 4 | Partnership | Enduring relationship to work for the cause | Joint planning.<br>Well established systems. | Openness, respect for relationship.<br>Relationship on equal footing. |

**3.5. Policy Recommendations for Financial Inclusion:** Financial Inclusion has become the foremost priority of the Indian Financial System. It is felt that enabling access to a greater number of the population to the organized financial system is essential to ensure that the benefits of the growth get into down.

***3.5.1. Designing appropriate models relevant to the context:*** There is a need to devise an appropriate business model that would adequately address the issues pertaining to product, pricing, segmentation and distribution clearly. Financial Inclusion should start with understanding the specific needs of the customer and the Banks/ MFIs who are providing the products / services rather than just prescribing targets. Focus thus should be on creating customized, composite and simple products. There should be a clear focus on relatively unbanked and underserved areas rather than competing aggressively in already well-served areas. A clear distinction should be made between the Urban poor as also between Above Poverty Line (APL) and Below Poverty Line (BPL). Different strategies should then be adopted to cater them.

There are different models of distribution prevalent today. These include models by SHG/NHG-Bank Linkage Programme, MFIs, Business Correspondent Model, NBFCs etc. There is a need to draw experience from these models to develop appropriate and cost effective distribution strategy for our markets.

***3.5.2. Financial Inclusion and Financial Literacy:*** The financially excluded section needs to be educated about the benefits of being a part of the organized financial system. Basic information and awareness is necessary to motivate them to be a part of the formal system. The financial literacy starts with understanding the cash flow and income of the urban poor households, their financial needs and financial services available such as savings, credit and insurance and developing the appropriate financial services for meeting the family needs. Financial literacy aims at helping urban poor women to change their attitude and make them think about future or think and plan for their life cycle needs, building their knowledge about different types of financial services and products and knowledge about the banking systems. Financial education for urban poor covers themes such as money management, debt management, managing savings and credit and use of bank services, etc.

***3.5.3. Financial Inclusion & Role of Technology:*** Technology can be leveraged to reduce cost, widen reach and enhance the efficiency and safety of the payments and remittances and develop a reliable credit information system. However, technology without appropriate skills would not yield efficient results. Thus urban bank branches needs to have highly motivated staff who should have the passion to serve the urban community and also the right understanding of the environment.

***3.5.4. Promotion of Nodal Agency:*** Similar to NABARD, National Housing Board can be the nodal agency for to address the needs of urban development. NHB would facilitate linkage with the local commercial banks to Self Help Groups. Towards this a part of microfinance and equity fund can be diverted under the guidelines of the Ministry with RBI approval. Financial Inclusion for Slum Dwellers requires special efforts under JnNURM. National Housing Bank (NHB) could play the nodal facilitation role as that of NABARD in urban areas. A bank linkage guideline has to be issued with the approval of

RBI for housing and microfinance with self help groups. A part of microfinance development and equity fund could be diverted to NHB under the guidance of the Ministry.

Financial inclusion plan would be prepared for each city with relevant financial institution. Separate DPR could be prepared for financial inclusion including SHG revolving fund and SJSRY programme for livelihood development. SIDBI could also play a proactive role for the development of tiny enterprises

***3.5.5. Revolving online credit and Differential interest rates:*** Similar to cash credit process enjoyed by the business fraternity, bankers can facilitate cash credit facilities to the occupational / producer / marketing groups which will ensure better rotation and has a multiplier effect. Commercial banks can provide credit to the urban poor for housing at differential interest rates to ensure slum free cities. Considering the repayment period, the cushion of lesser interest rate facilitates accessibility and affordability.

## 4.0 LIVELIHOOD INTERMEDIATION

**4.1 Introduction:** Vulnerability and seasonality of the occupation of the slum dwellers forces them to engage in to different livelihoods for the survival. There is an immense need for organizing the street vendors, servant maids, construction workers etc in to functional groups. As on, these members are disorganized which are making them vulnerable to the exploitative forces in the market. The returns from different occupations are also varied due to marginalization and urban poor demand system. The gaps in seasonal cash flows for the dwellers are exploited by the money lenders charging exorbitant interest rates. The formal entities like SHG though it facilitates credit do not cater to all the credit needs of the trade. Hence, the need for forming occupational / functional groups to have an identity and also to access credit at affordable rates.

Building on the social and financial intermediation, business intermediation is the next phase for graduation.

a. It is appropriate to introduce income generating activities based on known skill, knowledge and resources.
b. Integrating with existing livelihood activities of group members.
c. Emphasis to be laid on developing skills in addition to providing backward and forward linkages
d. Business promotion among SHG's is not a stand alone activity but required to be promoted as community based business enterprises.
e. Through nested institutions approach, Primary Producers Group (PPG's) and Primary marketing Groups (PMG's) and Producers company at apex level .

People institutions increasingly strengthen their support to forge viable linkages with private organizations to sell members products and take cost advantage through collective purchase of raw materials. In many cases, some business activities of SHG members already reached scale. Hence, members to avail the benefit of scale advantage, People institutions help specific producer groups to establish market linkages with the private business organizations. These linkages are sustained by creating required systems and processes.

**4.2. Status of Business Intermediation:** The livelihoods prevalent over years are vending (vegetables, fruits and flowers), petty trading (shops and small food points) and labor in service sector (servant maids, construction labors, load men, sanitary workers etc.) and much more. In the entire above livelihood people are unorganized, the do not have any platform to address their issues. Very often they are exploited by middlemen so that these urban poor people get very meager wages which is not sufficient to meet their needs. Their credit needs are met by informal sources and such sources are inadequate. These urban poor people are characterized for their urban poor infrastructure. There are high leakages due to bad habits like smoking, alcoholism; beetle leaves chewing, frequent tea consumption and gambling. Due to unhygienic living and urban poor sanitation conditions occurrence of health hazards are high hence health care expenditure are very high. Slum people are illiterate and less educated makes them unaware to handle the modern electronic gadgets are declaring them as semiskilled labors which often get them less pay. Abundance of labor supply for certain works ends with lesser pay as the wage is decided by demand – supply relationship.

***4.2.1. Poor and their low returns:*** **P**oor do usually unskilled labours, own only few assets and have limited economic options which results in deficit cash flow as the consumption needs exceed income. Hence they have to depend on rich people in their reach or money lenders at exorbitant rate of interest. Either case urban poor are taken advantage of their monetary weakness. For example, when an urban poor gets loan for an income generating activity, he is forced to sell the produce to middleman. It involves double exploitation, first by hidden interest for the loan amount and second is realizing low income from activity due to difference in measurements while procuring and providing very less price etc. But when he gets loan from money lenders, the loan is provided at high rate of interest. Ultimately, leads to low returns due to little power to influence even the local market, influencing policy and accessing government resources is a distant dream.

*4.2.2 Livelihood issues:* There is distinct class discrimination between capitalists and workers. Hence least favorable terms exists while participating in activities and markets exists due to political advantage. Availability of financial support from money lenders or people in work environment can be helpful in times of shock but also set exploitative terms in several markets like credit, commodity and labour. Unequal market power allows higher classes extract surplus value from lower classes. Market arrangements are structured to enable surplus extraction from lower classes. Few of the markets are rental, wage labour, commodity, credit and taxation.

Livelihood interventions are conscious efforts by an agency or an organization to promote and support livelihood opportunities for a large number of people (other than those directly or indirectly employed by them). Government of India has been one of the largest agencies involved in such livelihood promotion efforts. However, the cooperative sector, the corporate sector as also the NGO sector has also contributed to promoting livelihoods.

***4.2.3. Cash flow management:*** Livelihood promotion / support efforts are always around a set of people. It is a set of people whose livelihoods we are trying to promote. Therefore, it is essential for us to get to know the people and their livelihood patterns before we design any intervention. Though there may be inadequacies in their livelihood options, they are not bereft of any livelihood activities. Therefore, whatever new activities are proposed will have to be incremental to their present livelihoods. It is therefore, important for us to know their livelihood portfolio and their livelihood strategy. Poor households are involved in a set of activities to maintain their livelihoods. This constitutes their diversified livelihood portfolio. It is important for us to understand what is the livelihood pattern of the people, the existing mix of activities in which different members of a household are engaged in at different parts of the year.

However, the livelihood portfolio of a household depends on their livelihood capacity. Livelihood capacity of a household is determined not only by the number of people in the family, but also on the skills and knowledge set of the people, their attitudes towards new activities, their asset base, and their opportunities, as well as cultural and social conditions of the area. Hence it is important to know what are various sets of skills and knowledge that the people have, shortfalls in a household's income and buffers from which these are met, opportunities that are accessible to them as a family in the area, including barriers posed by the social and cultural conditions, finance, including credit available through out the year, to make investments as well as to even out cash-flows at different seasons.

***4.2.4. Need for Capital:*** Livelihood interventions need substantial capital investment that may come from different sources. The source could be a donor, or a government programme, or investment made directly in the activity. The more we engage in livelihood promotion, the more funding we will need. Grants may be great to get us started, but the total fund available is likely to be limited. A large volume of capital can be mobilized from capital markets if, and only if, adequate returns on investments can be generated. Different funding sources may also influence the objectives and the implementation strategy. Whether we receive funding from donors or from government, the missions of those agencies are likely to play a major role in design of the intervention.

There are four elements of the external environment: namely, the Factor Conditions, the Demand Conditions, the Industry Conditions and the Institutional Condition, which influence the livelihood choices.

**4.3. Process of Livelihood Intermediation:** Livelihood Intervention should be member centered which means those who are identified should be involved from beginning and all steps should be taken by consulting the concerned member. The intervention designed has the moral responsibility when any thing goes wrong at any stage of the progress. It also includes financial responsibility, and environment responsibility, as the intervention activity should not affect any angle of the existing situation. Participation of all members becomes mandatory, they should be enabled to take decisions, and making them efficient than before to use the available resources. Livelihood interventions should be built on the existing strengths by identifying and encouraging it. It should be holistic in approach as it may not concentrate on the economic increase alone and catering the other needs too like health, education and various other needs. It can be achieved by involving micro (internal lending from savings) and macro linkages (institutional support from apex bodies), encouraging partnership and facilitating sustainability. All markets or organization related to that livelihood should be linked by various tie ups. For example, both partners (demand and supply) should be identified. As production is done after identifying the target population risk is reduced and cross learning's are increased.

**4.3.1. Objectives of the intervention:** The objective of any intervention should be very specific. When it is too diversified, then the success becomes less. The intervention may increase the income for some cases, assets may increase and risks may reduce. All things may definitely improve the standard of living due to multiplied entrepreneurship activities. Some of the means may be as follows:-

- Creating assets by involving one or more improvements like improving the labour skill of an individual, making home as a business premises, creation of enterprise outside the home.
- Enhancing income, reducing variations in income through risks, shocks and seasonality.
- Organizing the producers into associations to enhance their power in the market.
- Enhancing the money circulation with in the economy especially buying and selling assets among members themselves.
- Increasing their effective purchasing power by reducing their costs.

***4.3.2. Nature of intervention:*** It varies according to the sector in which intervention takes place and point of intervention. The intervention tools needed are asserting rights, building local inter-dependent economy, credit, infrastructure, marketing, policy advocacy, training and technology.

***4.3.3. Design of the livelihood intervention:*** Prime Actor, who is going to be the actor and beneficiary, should be decided. Ownership of the entrepreneurship like individuals, groups, promoting organization and mixed ownership should be defined, whether it is managed by producers or hired professionals should be decided. Size of the activity should be freezed according to the capability. Source of funding like grants, loans, equity and financial orchestration must be arranged prior the initiation of the livelihood intervention.

***4.3.4. Stages of livelihood intervention design:*** Assessment should be very critical based on native practice and categorize accordingly, mapping out the market, identification of members, providing orientation to them to form Primary Producer Groups (PPGs) or Primary Marketing Groups (PMGs), performing procurement, processing, production packaging and marketing, expansion and diversification in the respective area. Each step varies according to the sector in which intervention takes place namely categorizing the families according to financial support and source of income, mainstreaming supplementary income as family income by creating more supplementary sources of income, introducing new activities or market and broadening the skill base and asset base.

Independency and inter – dependency with respect to microfinance as this needs larger volume of credit than regular credit scope. Melting the mind set of the community towards collective action often is a problem. Source of promotional cost for structures and systems should be arranged. Market needs volume but production at volume is not possible always. There are problems of integration.

**4.3.5. Role of Partners in Different Phases:** Each actor has a role to play in the business intermediation for successful implementation of the venture / activities.

| Role / Phase | Promotional (0- 18 months) | Stabilization Phase (18 – 30 months) | Upscaling (30 -36 months) |
|---|---|---|---|
| Implementing agency | Survey , Business Plan | Promotion of Enterprises and facilitating linkages and creating systems and procedures | Replication of entities and promotion of primary producer group |
| Government | Secondary source literature on activity | Infrastructural support through subsidies / grants | Tax exemption and insurance support |
| Bankers | Consideration of proposal | Access to credit and venture capital support | Cash credit facility |
| Private / market | Identification of gaps in market | Forward and backwardinkages | Steering Committee |
| Technical institutions | Technical know how | Training and Capacity building | Value addition and product diversification |
| Donors | Administrative support | Seed support | Withdrawal strategy |

### 4.4. Policy Recommendations for Livelihood Intermediation

***4.4.1. Preparation of Business Intermediation Plan:*** For each city, separate business intermediation plan is to be proposed. This includes the skill survey of the urban poor, activity mapping the activities of slum dwellers, issues involved in their operations and possibilities of forward and backward linkages. This plan would give the indicative costs of the business promotion. In short, organization form, scale of activity, capital investment required, and technology required for effective operations and the situational analysis of the market economies. To design effective livelihood interventions, there is a need for observing native practices and adapting it to programme lessens the mortality rate of interventions.

***4.4.2. Promotion of Primary Producer Group's:*** Livelihood categories are standardized. It needs an organization form, scale like PPGs etc., capital investment, technology market, functional literacy and skills. It depends upon the capacity of the family to take up the livelihood, strategy and various portfolios to choose. The livelihood intervention should be identified from community to increase the adoptability and should not be introduced afresh. It can be identified based on the market demands so that it is produced for market. Like minded people are organized to take up some livelihood ventures like mini market, grocery shops, restaurants which is not possible at individual level have turned to be very successful due to collective action. Investing in working capital, sharing man power by scheduling among themselves have resulted in economic profit and motivating the members to experiment various collective entrepreneurship ventures.

The following are the standardized diversified intervention options available for the people to adopt according to their need and capacity in the urban context.

The potential of the product / service need to be studied in detail for exploring its viability of operation and its future prospects. This calls for tracking the product / service chain from the production to consume and identifying the demand and supply gaps and possible areas of intervention. Based on the demand of the product / service in the market, members related to the activity to be identified and know the level of operation in relation to the trade / activity as the numbers of members have scale advantage for setting up the demand system or for negotiation in the market.

The group of SHG members based on their activity will become PPG /PMG. This PPG / PMG may be formed from SHG members of two or more SHG groups of the same area / cluster of slums. This PPG/ PMG will act as a separate entity. These functional groups formed has to express their solidarity by voicing their concerns and also to relate with the mainstream institutions to get their sanction in terms of license for pursuing their trade with dignity. The members should pay share capital, to form their own byelaw to run the group smoothly. Among them executive committee for governance will be elected. Since the SHG members are very urban poor and their capacity is very low, it is very difficult for them to take business venture. Hence, this PPG/ PMG will provide them the benefit for collective action, bargaining power and effective use of their individual capacity. . Proper demarcation of individual and collective role and there should be shared understanding of the same among the members

Business based people organization PPG's PMG's Producer Company will be provided assistance in business promotion in entrepreneurship, technical skills, business management skill and accounting, assessment of business potential, developing brand market potential, arrangements for inputs, linkages with market for output, facilitating to develop new value added products.

***4.4.3. Promotion of Producer Company:*** Producer Company is a body corporate having objectives or activities specified in section 581 B of Company act and register as a producer company. This Producer company will have " mutual assistance principle" set out in subsection of 581 G of Companies Act.

This producers company will provide necessary production and marketing support required by the PPG / PMG by avoiding middlemen, which is the major problem of our SHG members. This producer company will establish direct contact with end users / marketing centres.

***4.4.4. Support for infrastructure for economic activities:*** Since the SHG members are very urban poor and do the activity in small level, they cannot buy necessary machineries and equipment on their own. So, a common facility is to be established to use by the members to maintain quality consistency of standards as per the market requirement. PPG members will pay service charges for the facility availed at Common facility centre for its sustainability. Through SJSRY programmes, infrastructure creation could be facilitated for income generation activities. System and process need to be evolved for pursuing the vendor activity dignity with the corporation would give them identity and to pursue the trade with out harassment of the law and order system. Allocation of resources and providing a facilitating environment is essential for successful credit absorption by the urban poor. Various corporate entities and industries need to be involved in providing marketing linkages and tie up for strengthening the business.

***4.4.5. Supporting new ventures by providing venture Capital and Revolving Fund:*** To demonstrate the potentiality and viability of innovative activities, venture capital is required in the form of returnable grant. Once the activity is demonstrated the required capital will be recovered from community enterprise and the initial venture capital will be revolved for further investment for promoting new ventures promoting many community enterprises. Entrepreneurship is creating and generating economic value of a family or individual. Livelihood interventions are needed both for sustaining the microfinance operations and address the issues of poverty. A shift from minimalist approach to holistic approach is needed. Credit provides only the capital which is not sufficient for livelihoods promotion. Needs are varied, huge and beyond the capacity of the group and are often not supported by microfinance. Hence instruments like grants, loans, equity, venture capital, leasing, supplier finance, guarantee, warehouse receipts are available and only few are in practice and others could be tried. Role of each instrument should be clearly defined and should be used for overcoming shocks and risks.

| | | |
|---|---|---|
| 1 | Rural Urban Tie Up | For Milk, Vegetables and flowers |
| 2 | Commodity marketing | Bulk purchase by the members for the members |
| 3 | Enhancing skill | Broadening the skill of Servant maids, construction workers and other services to get better pay |
| 4 | Social entrepreneurship development | Edible food making and pappad making |
| 5 | Construction | Housing Projects & Training to Masons |
| 6 | Trade & Commerce | Exhibitions, Sales Out lets, Shops, Local Mandis & Rural - Urban Tie - ups |
| 7 | Transport& Communication | Auto, Telephone Connections & Computer Kiosks |

***4.4.6. Rural – Urban Linkage:*** Vegetable, fruits, flower and milk demands of the Madurai Urban are met from rural areas. Rural – Urban linkage is facilitated in which SHG member(s) of rural areas will supply to the SHG member(s) of the urban areas. By this exploitation by middlemen is avoided and profit will only go to either member(s) of this linkage. Some products are developed based on the definite need of the people like house leasing, auto and tri-cycle finance which helps them to control the leakages and asset generation after a period of time.

***4.4.7. Industrial tie-up for employment generation:*** When some sizable members are involved in any activity like Agarbathi, tailoring and making consumable goods like eatables or snacks are linked with some companies. As a result the members get regular employment opportunities and wages through out the year.

Livelihood plan document should be prepared by analyzing the various livelihood interventions available and indigenous practices followed. Member orientation should be done for various livelihood options and viability. Packaging of a set of livelihood interventions to suit a group of people or individuals should be designed to meet the need. The entire process should have a purpose focus facilitating focus moving from general lending into product based lending. Mechanisms for livelihood finance should be evolved which is unique to the family.

## 5. CAPACITY BUILDING FOR COMMUNITY EMPOWERMENT

**5.1. Introduction:** There is a need to define capacity building in the context of microfinance to unorganized sector and also other institutional players involved in this task. Capacity building needs to be related to the operational domain of all the stakeholders who are providing development support to the unorganized sector.

The concept of learning/capacity building as defined by Prof. Udai Pareek (1980) is "the process of acquiring, assimilating and internalizing cognitive, motor, or behavioral inputs for their effective and varied use when required, and leading to enhanced capacity of further self-monitored learning". Good environment for learning, proper institutional mechanism and the style of the trainer facilitate the discovery of the learner.

**5.2. Building KAS (Knowledge, Attitude and Skills) for Social Intermediation:** Capacity building for demand stream includes member's trainings, Leadership development, Animators or local associates training and Skill building for income generation and employment. The quality of organizing the poor is severely constrained by the limited capacity of NGOs. The capacity building exercise would seek to build knowledge, attitudes and skill for the demand stream as per the following framework.

| Knowledge | Attitude | Skill |
|---|---|---|
| • Community organisation<br>• Structure and systems<br>• Mainstream Programme and linkages<br>• Management and planning<br>• Mainstream management<br>• Self management | • Belief on self management<br>• Mutuality<br>• Enabling<br>• Team work | • Community organisation skill<br>• Management<br>• Implementation<br>• Conflict management<br>• Consensus building communication |

***5.2.1. Policy Recommendation for Social Intermediation***

***5.2.2. Capacity Building Costs:*** Three types of capacity building costs are involved in building the demand stream, which include Promotional costs, Research and Development costs and meeting ongoing costs of routine programmes after the promotional phase. The promotional costs are the initial costs involved to organize the poor and create the access for institutional finance. This is a one time investment required to be provided as grant. The funding can be linked to a realistic business plans that projects institutional breakeven within three years irrespective of the approach followed by NGOs or MFIs. These costs should be shared by the government, MFIs and banks. These costs of promotion vary from model to model. In case of self-help group model 100% of costs need to be met through grants while in case of MFIs and banks only the operating deficits of promotional costs can be met till the breakeven is achieved. The support can be in the form of grants or recoverable grants amortized over a period of 5-10 years in case of MFIs. While the research and development costs for capacity building are for initiating new ideas, activities and innovations to build the capacity of the demand stream once organized. For e.g. the costs of skill building of unorganized poor to enhance their credit absorption needs to be met by the government or outside donors only. The other components include creating supportive environment marketing and infrastructure to support the economic activities of the unorganized poor. Finally the ongoing costs are the regular costs of capacity building after the promotional phase. These are routine costs of operating the system and need to be generated by the system out of its mainstream operations.

***5.2.3. Design of different programmes and courses:*** Keeping the requisite attributes required to be built for demand stream the following programmes and courses can be designed for the members, leaders and people staff.

***5.2.4. Building of Reference Centres for Demonstration:*** The process of building social capital would be enhanced by exposure to role model SHG/NHGs and its people institutions who have demonstrated good governance, efficiency in functioning and best practices. A select group of facilitating NGOs from the enabling stream would undertake the responsibility of promoting such role model SHG/NHGs and its people institutions. In each of the six regions (North, South, North east, Central, East, West) ten such demonstration centers would be set up which would be under the guidance of the select NGOs. It is expected that the unorganized poor on exposure to such role models would equip their capacity, well and fast, to build effective and quality nested institutions.

**5.3. Building KAS (Knowledge, Attitude and Skills) for Financial Inclusion:** Capacity Building of Supply stream players involves building conviction and attitudes through exposures to successful models for creating awareness, better appreciation and skills required to deal with the unorganized sector. As it is, the funds would not be a constraint for capacity building exercise for supply stream as they are internally generated and used. The poverty in urban areas is growing alarmingly and there is no specialized institution like NABARD for financing poor communities. Similar to NABARD, another structure focusing on urban development needs to be envisaged

| Knowledge | Attitude | Skill |
|---|---|---|
| • Community organisation systems and structures<br>• Legal and regulatory matters<br>• Microfinance models<br>• Indian and international experience<br>• Organisational development<br>• Business promotion and management<br>• Legal and Regulatory framework | • Business proposition not social obligation<br>• Client outlook towards urban poor<br>• Focus of poverty reduction<br>• Transparency and Accountability | • Identification of suitable clients<br>• Monitoring and evaluation<br>• Portfolio management |

considering the growing trend in urbanization and divergent needs of the urban poor communities. The capacity building exercise for the formal mainstream institutions would seek to build knowledge, attitudes and skill as per the following framework.

## 5.4. Policy Recommendations for Financial Inclusion

***5.4.1.Building Positive Attitude:*** The existing banking system including banks and Cooperatives need to earmark at least 15-20% of resources exclusively for building the capacity of the officials to enhance the institutional finance to support the unorganized sector. The programmes for supporting the unorganized sector need to be mandated. The capacity building programmes aimed at the bankers should primarily focus on changing the mindset, and attitude of the bankers about lending to urban poor and reorient them to see lending to poor as a viable proposition and not a social obligation. The RRB and Cooperatives need to be exposed to various models of microfinance to reorient the staff and restructure the existing products and services to suit the poor in the unorganized sector. As part of building the perspective on 'poverty lending as a business proposition' special orientation programmes need to be organized for the chief executives of the formal mainstream institutions. These programmes should be organized by well performing NGOs and MFI and focus on providing opportunity for field interaction and demonstration for the participants. The middle level executives of the banks could be sent for institutional secondment or short deputation to well performing NGOs and MFIs to facilitate cross learning across streams.

***5.4.2. Experimentation for field banking:*** Many of the formal mainstream institutions do not have the experience of non-subsidized lending with the poor. As part of building the capacity of these institutions 10 experimental projects can be initiated for next five years, where each bank will open exclusive microfinance branches and operate profitably. The promotional costs required for the initial phase of five years can be contributed by Government of India. This experiment would help in building the 'Institutional Perspective' for the organizations involved and offer new learnings for the participant banks about poverty lending.

***5.4.3 Promotion of branch based viable linkage:*** Each bank already involved in linkage should focus on increasing the microfinance portfolio of each branch to reach at least Rs. 1 - 1.5 crores and support 150 - 200 groups. Reaching and maintaining significant microfinance portfolio at each urban branch would offer new lessons and enhances the internal capacity of the banks involved. These banks involved in this project need to be appreciated and supported. At least 10% of urban branches of banks should undertake linkage in the first phase ultimately leading to all urban branches in the next ten years.

***5.4.4 Building Micro Finance Institutions:*** Senior executives of the emerging microfinance institutions need to be provided with varied opportunities to attend the short and long term courses at national and international level. Selected reputed management institutions like IRMA, IIMs, XIM & XLRI should be supported to offer various Management Development Programmes and courses on institutional finance for the banking sector. The capacity building efforts should not be limited to providing inputs for the individuals but focus on organizational development processes to help in building favorable operational systems and culture suitable for managing the growth. It should be seen as long term process rather than organizing few training programmes.

***5.4.5. Design of different programmes and courses:*** Keeping the requisite attributes required to be built for supply stream the following programmes and courses can been designed for senior executives, trainers of trainers from Banking training institutes at various levels.

***5.4.6. Capacity Building Costs:*** The formal mainstream institutions of supply stream are setting apart training budgets from internal resources for building the capacity of the staff on various subject matters for in-house training and also for external training in the national institutes of repute. What is required is now prioritising capacity building requirements of the staff as per the design of the programmes suggested above for financing unorganised sector and reallocating the budgets for this purpose. In so far as the microfinance institutions are concerned, during the initial period of three years, when the MFIs have not achieved break even volumes, budgetary support is needed for capacity building of their staff. From fourth year onwards, the operational costs would be met from the internal resources generated out of microfinance operations.

***5.4.7. Building internal capacity for development finance:*** Each of these apex institutions need to develop exclusive in house programme to train the officers concerned focusing on issues related to unorganized sector, poverty lending, microfinance and other related aspects to provide needed orientation, perspective and skills. Where it is not possible to develop in house programmes special efforts should be made to train all the officials through collaborating with other resource institutions in the sector having field experience and operations. The training institutions of various apex banks also need to work jointly and develop courses in collaboration with practitioner NGOs and MFIs to upgrade the existing courses and programmes. In addition to providing opportunity for participating in various training programmes and exposure visits the officials could be provided an opportunity to apply the learning through implementing joint assignments with and secondments to various NGOs and MFIs having considerable field experience in the field of development finance.

**5.5. Building KAS (Knowledge, Attitude and Skills) for Business Intermediation:** Member's livelihood options are highly diverged and are decided by capacity, strategy and portfolio of the family and livelihood profile of a household could be depicted as an integrated factor decided by livelihood capacity, livelihood strategy and livelihood portfolio. Business Development Services would be created to promote producers and marketing groups among urban poor vendors groups etc. Producers and trading groups would be federated as Producer Company taking advantage of recent facility with company act. Business Intermediation plan would be prepared for each city.

| Knowledge | Attitude | Skill |
|---|---|---|
| • Promotion of Business entities.<br>• Structure and systems.<br>• Legal and regulatory matters<br>• Market Dynamics<br>• Sustainability | • Profit making<br>• Risk taking<br>• Capitilsation of opportunities | • Entrepreneurial skill<br>• Marketing and Management skills<br>• Business promotion<br>• Conflict management |

**5.6. Policy Recommendations for Capacity Building for Livelihood Intermediation**

***5.6.1. Building of Resource Centers for Livelihood Promotion:*** A select group of facilitating NGOs from the enabling stream would undertake the responsibility of promoting such resource centre for giving training to entrepreneurs and their institutions. In each of the six regions (North, South, North east, Central, East, West) ten such demonstration centers would be set up which would be under the guidance of the select NGOs. It is expected that the unorganized urban poor on exposure to such role models would equip their capacity, well and fast, to build effective and quality nested institutions.

***5.6.2. Building capacity through Vocational Skill training:*** Market provides ample employment opportunities in the growing context of urbanization. New needs and fields emerge out of growing consumer and industrial markets. Catering to the demands, vocational institute can build the skills of the unemployed and engage them in productive endeavors. Skill appreciation programme can be organized for the members who are involved in the activities to maximize their gains.

***5.6.3. Establishing Community College:*** The community college to be established to play the role of entrepreneurship development, skill building and impart technologies. This community college will conduct regular / periodical / special skill building / training programme based on need. The community college will have infrastructure facilities necessary for training, workshop, demonstration models etc.

***5.6.4. Design of different programmes and courses:*** Members need to be oriented about the risks and vulnerabilities of the trade / product / service and above all the profit /loss component involved in the activity. This process calls for seeding the losses they are incurring in their activity on account of their individual pursuits and the need for collective action as a way out for win- win approach.

**5.7. Building Knowledge Attitude Skills (KAS) for Slum Governance:** At present there is no mechanism to integrate various apex level institutions and steer a coordinated process to provide an enabling environment for the growth of the sector. Many of these institutions does not have the exposure to the practical realities and very few institutions consult and involve all stakeholders in developing their perspective plans and design operational strategies. The capacity building exercise for the actors who are involved in slum governance would seek to build knowledge, attitudes and skill as per the following framework.

## 6.0 POLICY RECOMMENDATIONS

Policy recommendation are the gist of the propositions arrived for social intermediation, financial inclusion, business development, slum governance and capacity building for institution building for community empowerment.

### 6.1. Propositions for Social Intermediation

***6.1.1. Promotional Costs and capacity to build and organise the community:*** The success of large scale development can happen only the investments in communities' in terms of organising and building their organisations can happen. The foremost challenge is lack of promotional costs required to promote the groups and their nested institutions. Typically promotion of a federation of 200 groups with 4000 members for a period of 3 years till it reach sustainability would need an investment of Rs 4 millions. These costs are critical to build the social capital and organise the poor to enable them to address poverty. Another challenge is lack of capable NGOs and trained manpower to organise and enable the communities and their organisations on the principles of mutuality, self help and sustainability.

***6.1.2 Debt Swap for Debt Trap:*** The urban poor lives with and dies with debt. It is not so much debt per se, but the price paid for the debt, which makes them poorer. The predatory lending practices - usury by indigenous moneylenders have been perpetuating the legacy of poor's debt bondage. The issue of usury has been before us for long. This continues to remain as a significant causal factor in compounding the problem of poverty. The present scenario continues to be one of grave concern as the issue still proves to be elusive and intractable. Though access to credit has helped partly in addressing this age old problem, urban poor continue to be mired in the debt bondedness owing to the historical and cultural factors. More than anything else, unshackling the poor from the clutches of usurious money lenders will remain a challenge. Debt consolidation packages need to be devised along with supportive policy measures and enforcements to see that all the poor are out of clutches of moneylenders for ever.

***6.1.3 Coordinated efforts by different stakeholders:*** Poverty reduction is everybody's business and responsibility and can be achieved only through constant coordination and cooperation between various stakeholders like government, banks, NGOs and community organisations. The roles have to be clearly defined and mutually reinforcing. Government must not implement the programmes directly in the field directly, rather facilitate and build the NGOs and civil societies to take on. Banks need to take a proactive role in meeting the promotional costs along with government in building the required social capital and be flexible and innovative to reach the poor and work through the groups and their people institutions.

***6.1.4. Capacity Building of different streams:*** Capacity building for demand stream includes members trainings, Leadership development, Animators or local associates training and Skill building for income generation and employment. Many of these programmes are of shorter duration and adhoc in nature. The continuation of the programmes depends on the availability of grant support. Only few government programmes provide continuous support and meet the total costs of group promotion and capacity building costs. While in case of large scale government programmes supported by bilateral and multilateral donors the major constraint is the lack of suitable NGOs with experience and perspective to implement the programmes in the field. The quality of organizing the urban poor is severely constrained by the limited capacity of these small NGOs. Capacity Building of Supply stream players involves building conviction and attitudes through exposures to successful models for creating awareness, better appreciation and skills required to deal with the unorganized sector. The mainstream institutions have been setting apart a good chunk of resources for the in-house training system and also for external training in the national institutes of repute such as NIBM, CAB, etc. As it is, the funds would not be a constraint for capacity building exercise for supply stream as they are internally generated and used. What is more important is to identify suitable resource institutions to organize training programmes with field exposure, orientation and interaction critical for changing the mindset of the bankers. Similar to NABARD needs to be envisaged considering the growing trend in urbanization and divergent needs of the urban poor communities.

***6.1.5 Social security - addressing vulnerability:*** Support to the introduction of new products to address social security, especially as they may offer new opportunities to reach the urban poorer brackets of potential clients is required from the mainstream and other social investors. Health setbacks are impacting on income flow and affecting the capacity to earn and consequently the repayment performance. The potential of health insurance products to minimize / avoid such eventualities need to be fully explored and exploited. Similarly, creative savings products and pension schemes are to be designed depending upon the context and efficiently operated systems and procedures.

***6.1.6 Interrelatedness of development issues:*** The interventions so far have also brought out the inter relatedness of development issues like enhancing livelihood opportunities urban development, infra-structure development including housing. Microfinance provides a platform on which other development themes can be initiated. There are certain themes in which micro finance can play a crucial role.

Thus Social intermediation has a timeframe of one to three years which has deliverables of organizing the urban poor, promoting democratic systems for decision making, to realize the power of collective action and above all it sets the foundation for sustainable growth by relating with mainstream institutions.

### 6.2. Policy Recommendations for Financial Inclusion

Financial Inclusion has become the foremost priority of the Indian Financial System. It is felt that enabling access to a greater number of the population to the organized financial system is essential to ensure that the benefits of the growth get into down.

***6.2.1. Designing appropriate models relevant to the context:*** There is a need to devise an appropriate business model that would adequately address the issues pertaining to product, pricing, segmentation and distribution clearly. Financial Inclusion should start with understanding the specific needs of the customer and the Banks/ MFIs who are providing the products / services rather than just prescribing targets. Focus thus should be on creating customized, composite and simple products. There should be a clear focus on relatively unbanked and underserved areas rather than competing aggressively in already well-served areas. A clear distinction should be made between the Urban poor as also between Above Poverty Line (APL) and Below Poverty Line (BPL). Different strategies should then be adopted to cater them.

There are different models of distribution prevalent today. These include models by SHG/NHG-Bank Linkage Programme, MFIs, Business Correspondent Model, NBFCs etc. There is a need to draw experience from these models to develop appropriate and cost effective distribution strategy for our markets.

***6.2.2. Financial Inclusion and Financial Literacy:*** The financially excluded section needs to be educated about the benefits of being a part of the organized financial system. Basic information and awareness is necessary to motivate them to be a part of the formal system. The financial literacy starts with understanding the cash flow and income of the urban poor households, their financial needs and financial services available such as savings, credit and insurance and developing the appropriate financial services for meeting the family needs. Financial literacy aims at helping urban poor women to change their attitude and make them think about future or think and plan for their life cycle needs, building their knowledge about different types of financial services and products and knowledge about the banking systems. Financial education for urban poor covers themes such as money management, debt management, managing savings and credit and use of bank services, etc.

***6.2.3. Financial Inclusion & Role of Technology:*** Technology can be leveraged to reduce cost, widen reach and enhance the efficiency and safety of the payments and remittances and develop a reliable credit information system. However, technology without appropriate skills would not yield efficient results. Thus urban bank branches needs to have highly motivated staff who should have the passion to serve the urban community and also the right understanding of the environment.

***6.2.4. Promotion of Nodal Agency:*** Similar to NABARD, National Housing Board can be the nodal agency for to address the needs of urban development. NHB would facilitate linkage with the local commercial banks to Self Help Groups. Towards this a part of microfinance and equity fund can be diverted under the guidelines of the Ministry with RBI approval. Financial Inclusion for Slum Dwellers requires special efforts under JnNURM. National Housing Bank (NHB) could play the nodal facilitation role as that of NABARD in urban areas. A bank linkage guideline has to be issued with the approval of RBI for housing and microfinance with self help groups. A part of microfinance development and equity fund could be diverted to NHB under the guidance of the Ministry.

Financial inclusion plan would be prepared for each city with relevant financial institution. Separate DPR could be prepared for financial inclusion including SHG revolving fund and SJSRY programme for livelihood development. SIDBI could also play a proactive role for the development of tiny enterprises

***6.2.5. Revolving online credit and Differential interest rates:*** Similar to cash credit process enjoyed by the business fraternity, bankers can facilitate cash credit facilities to the occupational / producer / marketing groups which will ensure better rotation and has a multiplier effect. Commercial banks can provide credit to the urban poor for housing at differential interest rates to ensure slum free cities. Considering the repayment period, the cushion of lesser interest rate facilitates accessibility and affordability.

### 6.3. Policy Recommendations for Business Intermediation

***6.3.1. Preparation of Business Intermediation Plan:*** For each city, separate business intermediation plan is to be proposed. This includes the skill survey of the urban poor, activity mapping the activities of slum dwellers, issues involved in their operations and possibilities of forward and backward linkages. This plan would give the indicative costs of the business promotion. In short, organization form, scale of activity, capital investment required, and technology required for effective operations and the situational analysis of the market economies. To design effective livelihood interventions, there is a need for observing native practices and adapting it to programme lessens the mortality rate of interventions.

***6.3.2. Promotion of Primary Producer Group's:*** Livelihood categories are standardized. It needs an organization form, scale like PPGs etc., capital investment, technology market, functional literacy and skills. It depends upon the capacity of the family to take up the livelihood, strategy and various portfolios to choose. The livelihood intervention should be identified from community to increase the adoptability and should not be introduced afresh. It can be identified based on the market demands so that it is produced for market. Like minded people are organized to take up some livelihood ventures like mini market, grocery shops, restaurants which is not possible at individual level have turned to be very successful due to collective action. Investing in working capital, sharing man power by scheduling among themselves have resulted in economic profit and motivating the members to experiment various collective entrepreneurship ventures.

The following are the standardized diversified intervention options available for the people to adopt according to their need and capacity in the urban context.

| | | |
|---|---|---|
| 1 | Rural Urban Tie Up | For Milk, Vegetables and flowers |
| 2 | Commodity marketing | Bulk purchase by the members for the members |
| 3 | Enhancing skill | Broadening the skill of Servant maids, construction workers and other services to get better pay |
| 4 | Social entrepreneurship development | Edible food making and pappad making |
| 5 | Construction | Housing Projects & Training to Masons |
| 6 | Trade & Commerce | Exhibitions, Sales Out lets, Shops, Local Mandis & Rural - Urban Tie - ups |
| 7 | Transport& Communication | Auto, Telephone Connections & Computer Kiosks |

The potential of the product / service need to be studied in detail for exploring its viability of operation and its future prospects. This calls for tracking the product / service chain from the production to consume and identifying the demand and supply gaps and possible areas of intervention. Based on the demand of the product / service in the market, members related to the activity to be identified and know the level of operation in relation to the trade / activity as the numbers of members have scale advantage for setting up the demand system or for negotiation in the market.

The group of SHG members based on their activity will become PPG /PMG. This PPG / PMG may be formed from SHG members of two or more SHG groups of the same area / cluster of slums. This PPG/ PMG will act as a separate entity. This functional group formed has to express their solidarity by voicing their concerns and also to relate with the mainstream institutions to get their sanction in terms of license for pursuing their trade with dignity. The members should pay share capital, to form their own byelaw to run the group smoothly. Among them executive committee for governance will be elected. Since the SHG members are very urban poor and their capacity is very low, it is very difficult for them to take business venture. Hence, this PPG/ PMG will provide them the benefit for collective action, bargaining power and effective use of their individual capacity. . Proper demarcation of individual and collective role and there should be shared understanding of the same among the members.

Business based people organization PPG's PMG's Producer Company will be provided assistance in business promotion in entrepreneurship, technical skills, business management skill and accounting, assessment of business potential, developing brand market potential, arrangements for inputs, linkages with market for output, facilitating to develop new value added products.

***6.3.3. Promotion of Producer Company:*** Producer Company is a body corporate having objectives or activities specified in section 581 B of Company act and register as a producer company. This Producer company will have "mutual assistance principle" set out in subsection of 581 G of Companies Act.

This producers company will provide necessary production and marketing support required by the PPG / PMG by avoiding middlemen, which is the major problem of our SHG members. This producer company will establish direct contact with end users / marketing centres.

***6.3.4. Support for infrastructure for economic activities:*** Since the SHG members are very urban poor and do the activity in small level, they cannot buy necessary machineries and equipment on their own. So, a common facility is to be established to use by the members to maintain quality consistency of standards as per the market requirement. PPG members will pay service charges for the facility availed at Common facility centre for its sustainability. Through SJSRY programmes, infrastructure creation could be facilitated for income generation activities. System and process need to be evolved for pursuing the vendor activity dignity with the corporation would give them identity and to pursue the trade with out harassment of the law and order system. Allocation of resources and providing a facilitating environment is essential for successful credit absorption by the urban poor. Various corporate entities and industries need to be involved in providing marketing linkages and tie up for strengthening the business

***6.3.5. Supporting new ventures by providing venture Capital and Revolving Fund:*** To demonstrate the potentiality and viability of innovative activities, venture capital is required in the form of returnable grant. Once the activity is demonstrated the required capital will be recovered from community enterprise and the initial venture capital will be revolved for further investment for promoting new ventures promoting many community enterprises. Entrepreneurship is creating and generating economic value of a family or individual. Livelihood interventions are needed both for sustaining the microfinance operations and address the issues of poverty. A shift from minimalist approach to holistic approach is needed. Credit provides only the capital which is not sufficient for livelihoods promotion. Needs are varied, huge and beyond the capacity of the group and are often not supported by microfinance. Hence instruments like grants, loans, equity, venture capital, leasing, supplier finance, guarantee, warehouse receipts are available and only few are in practice and others could be tried. Role of each instrument should be clearly defined and should be used for overcoming shocks and risks.

***6.3.6. Rural - Urban Linkage:*** Vegetable, fruits, flower and milk demands of the Madurai Urban are met from rural areas. Rural - Urban linkage is facilitated in which SHG member(s) of rural areas will supply to the SHG member(s) of the urban areas. By this exploitation by middlemen is avoided and profit will only go to either member(s) of this linkage. Some products are developed based on the definite need of the people like house leasing, auto and tri-cycle finance which helps them to control the leakages and asset generation after a period of time.

***6.3.7. Industrial tie-up for employment generation:*** When some sizable members are involved in any activity like Agarbathi, tailoring and making consumable goods like eatables or snacks are linked with some companies. As a result the members get regular employment opportunities and wages through out the year.

Livelihood plan document should be prepared by analyzing the various livelihood interventions available and indigenous practices followed. Member orientation should be done for various livelihood options and viability. Packaging of a set of livelihood interventions to suit a group of people or individuals should be designed to meet the need. The entire process should have a purpose focus facilitating focus moving from general lending into product based lending. Mechanisms for livelihood finance should be evolved which is unique to the family.

## 6.5. Policy Recommendation for Capacity Building

### *6.5.1. Social Intermediation:*

*6.5.1.1. Capacity Building Costs:* Three types of capacity building costs are involved in building the demand stream, which include Promotional costs, Research and Development costs and meeting ongoing costs of routine programmes after the promotional phase. The promotional costs are the initial costs involved to organize the urban poor and create the access for institutional finance. This is a one time investment required to be provided as grant. The funding can be linked to a realistic business plans that projects institutional breakeven within three years irrespective of the approach followed by NGOs or MFIs. These costs should be shared by the government, MFIs and banks. These costs of promotion vary from model to model. In case of self-help group model 100% of costs need to be met through grants while in case of MFIs and banks only the operating deficits of promotional costs can be met till the breakeven is achieved. The support can be in the form of grants or recoverable grants amortized over a period of 5-10 years in case of MFIs. While the research and development costs for capacity building are for initiating new ideas, activities and innovations to build the capacity of the demand stream once organized. For e.g. the costs of skill building of unorganized urban poor to enhance their credit absorption needs to be met by the government or outside donors only. The other components include creating supportive environment marketing and infrastructure to support the economic activities of the unorganized urban poor. Finally the ongoing costs are the regular costs of capacity building after the promotional phase. These are routine costs of operating the system and need to be generated by the system out of its mainstream operations.

*6.5.1.2. Design of different programmes and courses:* Keeping the requisite attributes required to be built for demand stream the following programmes and courses can be designed for the members, leaders and people staff.

*6.5.1.3. Building of Reference Centres for Demonstration:* The process of building social capital would be enhanced by exposure to role model SHG/NHGs and its people institutions who have demonstrated good governance, efficiency in functioning and best practices. A select group of facilitating NGOs from the enabling stream would undertake the responsibility of promoting such role model SHG/NHGs and its people institutions. In each of the six regions (North, South, North east, Central, East, West) ten such demonstration centers would be set up which would be under the guidance of the select NGOs. It is expected that the unorganized urban poor on exposure to such role models would equip their capacity, well and fast, to build effective and quality nested institutions.

### *6.5.2. Financial Inclusion*

*6.5.2.1.Building Positive Attitude:* The existing banking system including banks and Cooperatives need to earmark at least 15-20% of resources exclusively for building the capacity of the officials to enhance the institutional finance to support the unorganized sector. The programmes for supporting the unorganized sector need to be mandated. The capacity building programmes aimed at the bankers should primarily focus on changing the mindset, and attitude of the bankers about lending to urban poor and reorient them to see lending to urban poor as a viable proposition and not a social obligation. The RRB and Cooperatives need to be exposed to various models of microfinance to reorient the staff and restructure the existing products and services to suit the urban poor in the unorganized sector. As part of building the perspective on 'poverty lending as a business proposition' special orientation programmes need to be organized for the chief executives of the formal mainstream institutions. These programmes should be organized by well performing NGOs and MFI and focus on providing opportunity for field interaction and demonstration for the participants. The middle level executives of the banks could be sent for institutional secondment or short deputation to well performing NGOs and MFIs to facilitate cross learning across streams.

*6.5.2.2. Experimentation for field banking:* Many of the formal mainstream institutions do not have the experience of non-subsidized lending with the urban poor. As part of building the capacity of these institutions 10 experimental projects can be initiated for next five years, where each bank will open exclusive microfinance branches and operate profitably. The promotional costs required for the initial phase of five years can be contributed by Government of India. This experiment would help in building the 'Institutional Perspective' for the organizations involved and offer new learnings for the participant banks about poverty lending.

*6.5.2.3 Promotion of branch based viable linkage:* Each bank already involved in linkage should focus on increasing the microfinance portfolio of each branch to reach at least Rs. 1 - 1.5 crores and support 150 - 200 groups. Reaching and maintaining significant microfinance portfolio at each urban branch would offer new lessons and enhances the internal capacity of the banks involved. These banks involved in this project need to be appreciated and supported. At least 10% of urban branches of banks should undertake linkage in the first phase ultimately leading to all urban branches in the next ten years.

*6.5.2.4 Building Micro Finance Institutions:* Senior executives of the emerging microfinance institutions need to be provided with varied opportunities to attend the short and long term courses at national and international level. Selected reputed management institutions like IRMA, IIMs, XIM & XLRI should be supported to offer various Management Development Programmes and courses on institutional finance for the banking sector. The capacity building efforts should not be limited to providing inputs for the individuals but focus on organizational development processes to help in building favorable operational systems and culture suitable for managing the growth. It should be seen as long term process rather than organizing few training programmes.

*6.5.2.5. Design of different programmes and courses:* Keeping the requisite attributes required to be built for supply stream the following programmes and courses can been designed for senior executives, trainers of trainers from Banking training institutes at various levels.

*6.5.2.6. Capacity Building Costs:* The formal mainstream institutions of supply stream are setting apart training budgets from internal resources for building the capacity of the staff on various subject matters for in-house training and also for external training in the national institutes of repute. What is required is now prioritising capacity building requirements of the staff as per the design of the programmes suggested above for financing unorganised sector and reallocating the budgets for this purpose. In so far as the microfinance institutions are concerned, during the initial period of three years, when the MFIs have not achieved break even volumes, budgetary support is needed for capacity building of their staff. From fourth year onwards, the operational costs would be met from the internal resources generated out of microfinance operations.

*6.5.2.7. Building internal capacity for development finance:* Each of these apex institutions need to develop exclusive in house programme to train the officers concerned focusing on issues related to unorganized sector, poverty lending, microfinance and other related aspects to provide needed orientation, perspective and skills. Where it is not possible to develop in house programmes special efforts should be made to train all the officials through collaborating with other resource institutions in the sector having field experience and operations. The training institutions of various apex banks also need to work jointly and develop courses in collaboration with practitioner NGOs and MFIs to upgrade the existing courses and programmes. In addition to providing opportunity for participating in various training programmes and exposure visits the officials could be provided an opportunity to apply the learning through implementing joint assignments with and secondments to various NGOs and MFIs having considerable field experience in the field of development finance.

### *6.5.3. Policy Recommendations for Capacity Building for Livelihood Intermediation*

*6.5.3.1. Building of Resource Centers for Livelihood Promotion:* A select group of facilitating NGOs from the enabling stream would undertake the responsibility of promoting such resource centre for giving training to entrepreneurs and their institutions. In each of the six regions (North, South, North east, Central, East, West) ten such demonstration centers would be set up which would be under the guidance of the select NGOs. It is expected that the unorganized urban poor on exposure to such role models would equip their capacity, well and fast, to build effective and quality nested institutions.

*6.5.3.2 Building capacity through Vocational Skill training:* Market provides ample employment opportunities in the growing context of urbanization. New needs and fields emerge out of growing consumer and industrial markets. Catering to the demands, vocational institute can build the skills of the unemployed and engage them in productive endeavors. Skill appreciation programme can be organized for the members who are involved in the activities to maximize their gains.

*6.5.3.3. Establishing Community College:* The community college to be established to play the role of entrepreneurship development, skill building and impart technologies. This community college will conduct regular / periodical / special skill building / training programme based on need. The community college will have infrastructure facilities necessary for training, workshop, demonstration models etc.

*6.5.3.4. Design of different programmes and courses:* Members need to be oriented about the risks and vulnerabilities of the trade / product / service and above all the profit /loss component involved in the activity. This process calls for seeding the losses they are incurring in their activity on account of their individual pursuits and the need for collective action as a way out for win- win approach.

# Microfinance and Social Capital

*A. Umarani **

## INTRODUCTION

In September 2000, the UN summit declared Millennium Development Goals (there are 8 goals), out of which the first one is halving the extreme poverty and hunger by 2015. According to the United Nations (UN), in 2002 almost one fifth of the world population (i.e. 1.3 billion people) was living in extreme poverty earning less than one dollar a day. In India about 35 percent of the population still lives below poverty line. According to Sen, the existence of poverty is due to lack of choices and opportunities for the poor. One of the basics of development is freedom of choices to decide the quality of life to be led by the people. But how to ensure the poor to exercise their choices, as the poor do not have mechanisms of collectivity. As they are highly unorganized and being trapped in the exploitative money lending system, there are seldom alternatives to escape out of poverty trap. According to Robert Chambers one of the dimensions of poverty is powerlessness. Being part of the unorganized system they are frequently exposed to various risks and vulnerable situations. They do not have safety net and social security mechanisms to handle the risks of different kinds. One of the reasons for existence of poverty is lack of access to credit. As the banking sector in general is unable to cater to the financial needs of the poor since their credit needs are very tiny and small. Moreover, it increases the workload of the banks and involves high transaction cost in it. Money lenders and other forms of informal sources only take care of the demands of the poor. Despite the higher and exploitative interest rates, the poor prefer and extensively depend on informal sources of credit for their consumption and social needs. According to DFID framework of livelihoods analysis, the social capital and financial capital is the two important asset bases for making livelihoods enhancement strategies by the poor.

### Growth of Microfinance sector: Genesis and Evolution

The growth of the microfinance can be conceptualized into a framework considering the last two decadal experiences in India. The purpose of microfinance is to reduce the poverty and accelerate the economic development at the local community level. It facilitates the localized, context based and community related development process. Microfinance is seen as an instrument of reducing poverty with high level of community participation as their commitment to the purpose is very important. Microfinance sector started with micro credit

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service and by addition of savings and insurance services microfinance has been differentiated from the micro credit.

In late 1970s, the poor in developing countries particularly in Bangladesh, in late 1980s in India gained access to small credits through the introduction of micro credit/micro finance programmes. During the period 1997 - 2005, 113.3 million people received credit from different microfinance programmes, of which 84 percent were women (Daley-Harris, 2006). In India the growth of microfinance sector with different approaches was phenomenal. There are two broader approaches in terms of delivery of microfinance services to the poor: Enabling approach and Delivery approach. Both the approaches are predominant and the outreach is very significant in India. The Central Bank of India and National Bank for Agriculture and Rural Development (NABARD) has played a crucial role in positioning the microfinance sector for creating financial access to the poor. The microfinance services gained a momentum with respect to its social purpose. The involvement of commercial banks and private banks encouraged the growth of the sector. The sector has matured in terms of delivering financial services such as savings and credit. It encourages experimentation and innovations in providing various products and services suiting to the needs of the poor. More over the addition of micro insurance, micro pension and remittances, and technologies facilitate advancement of the microfinance services into propoor.

The task force of NABARD defines microfinance as "provision of small thrift, credit and other financial services for the low income segment of the society includes labour, artisans, small and marginal farmers including poor women from rural and semi urban areas to meet any kind of their basic as well as economic needs to reduce the poverty" (1999). Since the mission of the microfinance sector is to reduce poverty and poverty is multidimensional other services such as health, education, livelihoods etc have been integrated into the microfinance programme. Currently it is nomenclatured as development finance/livelihood finance. The NGOs such as MYRADA, PRADAN, and DHAN Foundation in early 1990s clearly articulated the purpose and started the microfinance programme by organizing the poor into self help groups. These groups have been structurally advanced into SHG federation, which has become one of the models to sustain the microfinance initiatives for its purpose achievement. Organizing the unorganized poor has become the first and foremost process steps to successfully initiate the microfinance programme. It is nothing but social intermediation. The second important process step is financial intermediation followed by the third process of livelihood intermediation and civic intermediation is the final process step to ensure the reach of social capital to the matured stage of delivering the services relevant to its members. All these four process steps (stages) promote scope for setting the institution building process in people organizations keeping the microfinance as an important and core programme. The field experience of different organizations promoting people/community based microfinance programme proves that these four-step processes need not be seen as one-after-another stage process, but can be understood as a graduation process of people organizations towards the maturity stage of growth with sustainability.

There is a need for conceptual orientation and operational clarity to sustain the microfinance initiatives without drifting its mission. In this paper, attempts have been made to clarify the challenges and issues related to them by emphasizing the need for promoting and building social capital appropriate to the different contexts of poverty.

**Microfinance and Social Capital - An engine for inclusive growth and development**

Putnam (1993) defines the social capital as "features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions." The forms of social capital in the microfinance sector are Self Help Group federations (Kalanjiam federations), Thrift Cooperative Societies (CDF, Hyderabad), Trade Unions (SEWA Bank), Neighbourhood Groups (NHGs) etc. Their experiences in addressing poverty issues through microfinance programme are recognised as successful community based models in India. These models emphasis social intermediation as a pre requisite/pre condition for successful implementation of microfinance programme, as it takes care of the following aspects:

a. **Inclusiveness through enabling:** The poor are targeted, attracted and included through participatory processes as the scope is high for practicing the principle of making choices and decision making by the poor. As it ensures homogeneity in terms of economic background of the members, the complexities in handling microfinance activities could be minimized. The challenge here is the method of including the poor and the process of enabling them to make the choice of becoming the member to be context specific. Further investments on building the abilities of people in setting the mechanisms and handling institutional, financial and developmental activities by them are to be seen as important agenda of promoting democratic processes.

b. **Sustained cooperation for financial efficiency:** Social capital provides scope for repeat interaction among its members. Once the process and purpose clarity is set for each interaction, the trust and mutuality could be promoted and strengthened through financial discipline. As the savings, credit and repayment are part of the financial activities supported by accounting and audit system, there is a need for investment on educating the people in using the funds 'frugally' particularly the outside funds - loans from banks, grants and subsidies etc. The financial efficiency not only lies with collection of savings, mobilizing loan funds and internal lending, but also ensuring the loan funds are being used for various consumption and productive purposes particularly for livelihoods asset creation and utilization for income generation by the poor. This purpose clarity would take place among the people if there is a repeat interaction among them.

c. **Improvement in informal risk sharing and reducing defaults:** The poor in different contexts such as rural, urban, coastal and tribal are highly vulnerable to various covariant and idiosyncratic risks; there is a need for social security mechanisms. The poor are mostly victimized for different kind of disasters, but they do not have security and safety net to protect their lives and livelihoods. It leads to further impoverishment and trap them into vicious cycle of poverty. There are evidences reveal the role played by the social capital as a safety net in protecting their lives and livelihoods through informal risk sharing. There are age old practices with mutuality concept are existing among the poor. The social capital acts as a platform to nurture and refine those practices suiting to their needs and demands. It also helps the promoters to identify and develop appropriate products incorporating the indigenous characteristics through experimentation and innovation. It brings the benefits of collateral to promote access to credit. Thus the social capital takes the responsibility of reducing the default rate and protecting the interest of different stakeholders - members, bankers, Promoters and outsiders.

d. **Promoting identity and entitlement:** Every one born on the earth has right to resources. But the poor are denied of those rights particularly the access to banking services, civic services, political space and decent living. Social capital provides space for every participating poor family accessing required services according to its level of maturity of handling those development agenda by itself. The poor do not have any identity as long as they are individuals, but once they come together their voices are heard by others and they are visible to outside system. Particularly the mainstream institutions such as banks, government and private organizations including the local governance recognize them as a legal entity and provide them space to express their development agenda. SHG-Bank linkage as a movement in India, SHGs promoted by government for implementing various government programmes and establishment of private - PO partnership for skill building and employment are living examples in India. Reach of benefits directly to the poor is possible through social capital without any exploitation and intermediary. There is a stage for the social capital to operate as a pressure group or a strong demand system on the mainstream institutions. The challenge here is the promoters should have the clarity and patience to allow the people organizations to go through the education process with internal capacity building for its internalization and action. Definitely it would invite lot of investments in terms of cost, time and intellectual capacity of the promoters. This process of closely working with mainstream institutions would facilitate the local economy to be vibrant.

e. **Individual and collective empowerment:** The poor particularly the women and children at the family level as well as at the societal level are highly vulnerable to the violence and exploitation. The poor belong to low status and labour classes are bound to be exploited by the rich. The people organizations implementing microfinance programme provides high scope for economic empowerment at the family particularly among the women, as the most of the microfinance programmes are targeted to women. Their participation in the decision making process with the guidance of set norms and governance in their groups/cooperatives results in collective empowerment. Their representation at the local community level, geographical level, forums at mainstream level etc provide them opportunities to learn collectively, acquire clarity and collective strength to ensure justice, equitable distribution of benefits and equity in opportunities for everyone. The challenge is the facilitation of the collective processes through networking, linkages, collaborations and partnerships with similar interested and mission oriented organizations for mutual support and benefits for the larger cause. The collective process would enable the people organizations to initiate the process of policy changes, regulation for creating enabling environment to similar kind of people organizations and would become an agenda setter for the mainstreams.

f. **Institutions for generation through self regulation:** The twin concerns of microfinance programmes are sustainability and purpose focus. There are other challenges which need immediate attention from the stakeholders of the microfinance are

- Exploitation of the people organizations as guarantors of the loans issued by MFIs,
- Channel for routing the government subsidized poverty alleviation programmes,
- Lack of perspectives and capacities of microfinance professionals,
- Mixed environment (hybrid models) with differences in purpose clarity and unhealthy competition,
- Politicization by excluding the ultra poor,
- Lack of role clarity among the stakeholders (need for role evolution and devolution as per the stage of the stages of the growth),
- Lack of conceptual clarity among the promoters about the social capital and microfinance - as a tool and internal capacity of the promoters - ready to spend time on process vs looking for quick fix solution,
- Lack of enabling environment to position the microfinance programme and social capital in the arena of development and poverty reduction without commercial focus.

The microfinance sector is not yet matured enough in the areas of building the people's organizations as a strong social capital for generations to build the value based society. Good governance is a critical element in the democratic process and self regulation is a value to sustain the people organizations for generations to create a sustainable impact on poverty. The microfinance professionals need to have much clarity on values and principles to be followed in building the people organizations as value based self regulated organizations. One need to be very clear that there is no concept of with-drawal but it should be understood in terms of handholding the people organizations by changing the roles and responsibilities of different stakeholders involved. The social capital is functioning based on the trust, mutuality and networks; the emphasis needs to be given on building value of self regulation and good governance.

## Conclusion: Social Capital for Development

The importance of social capital in the microfinance sector needs to be understood with a perspective of a) social capital and microfinance for poverty reduction and development, b) social capital for inclusiveness and effective development, c) social capital leads to promotion and strengthening of other forms of people organizations such as primary producers groups and producers companies, d) social capital to stabilize, sustain, scale up and span the microfinance programme and to sustain the people organizations for generations with self regulation as a value and e) for ensuring the practice of and institutionalization of democratic processes and principles among the poor. It demands a long-term investment in terms of cost, process and time for its efficiency and effectiveness. To conclude, the social capital becomes a foundation for effective implementation of microfinance and micro insurance programmes for reducing poverty and accelerates localized sustainable development.

# Asset building by the poor, Implications for microfinance

*Girish G Sohani **

## 1. Backdrop

Microfinance has emerged as an important approach and has become a significant sub sector within financial services, and specially for the purpose of ensuring reach to the poor. Microcredit initiatives have primarily helped to play the role of bridge finance in meeting the consumption needs of the poor, for debt redemption, and thereafter as working capital for micro enterprises taken up by the poor. As part of an economic development strategy microfinance has helped to be an effective tool to promote sustainable livelihoods through asset/ skill building. This requires further development and maturation within the microfinance initiatives. Central to this maturation is an understanding of Assets in the lives of the poor.

## 2. Assets and the dynamics of poverty

It is important to understand the interlocked nature of poverty. Poverty can be better understood as a syndrome-absence of capital assets low access to finance lack of market access, distortions in the market inadequate knowledge / skill for a new activity and so on. And all these factors are interlocked. The combined effect of these factors weighs down on the confidence levels and the entrepreneurial abilities to the poor. Any policy initiative, which tackles just one of these factors is bound to be pulled down to the dust by the combined weight of all others. Not surprisingly, I have heard the poor describe their state more as a 'lack of choice' (to do things differently), rather than as a 'lack of this asset or a 'lack of that input'. It is therefore important to consider the variety of roles that assets play for the poor. The extent to which each of these roles are served by different assets in turn depends on the inherent characteristics of an asset. The very process of asset building also decides its relevance for the poor in different situations.

## 3. Roles assets play

Assets are indeed found to play very different roles in the lives of people - and most certainly in the lives of the poor. Though one tends to think of assets as a "Productive Assets" which would generate an income stream, in reality assets often play either a multiplicity of roles or many roles beyond being "Productive Assets".

* President, BAIF Development Research Foundation, Pune

Often, accumulated savings take the form of assets. These may be thus used as savings for a specific purpose or play the role of fall-back insurance. It is also possible that some assets can play the role or anchor for the livelihood activities of the family while the other may play a supplementary of marginal role. The centrality of an asset to the overall livelihood or lifestyle also, in its turn, decides how much "content" an asset can provide to make the life meaningful for the poor. Such a range of roles becomes even more, strongly applicable while one, considers not just physical / financial assets but also intangible assets such as social capital. Table 1 provide the range of role attributes that assets can have.

**Table 1 : Attributes Of Assets - Roles**

| A | Roles | Description |
|---|---|---|
| 1 | Provider of income stream | Quantum, continuity and reliability of income stream |
| 2 | Insurance role as a fall back through liquidation | Reliability and value as a fall back through disposal of asset |
| 3 | Form of savings | Can play the role of disposable savings through liquidity |
| 4 | Anchor | Does it serve as an anchor for livelihood and lifestyle |
| 5 | Provide content for a meaningful life | Does it:<br>- Bring about a quantum change or a marginal change<br>- absorb the family for a substantial Part of the working time<br>- the work is found absorbing and Central to their life (interesting / Creative / not a burden) |

The poor sometimes tend to look upon the assets not just as capital goods but also as - or- rather more predominantly as - insurance or as a savings. It is for this reason that there is often a greater preference for more easily disposable units such as goats, birds and (harvestable) trees.

Each different role of the asset has its related implications. If the asset plays the role of a "Productive Asset" then the quantum, the continuity and the reliability of the income stream produced by different assets becomes crucial. If it is a farm of savings then its liquidity is crucial. If it has to play the role of "Insurance" the reliability of the fall -back value upon disposal becomes important. Certain assets can be so central to the life of poor family that they may serve as anchor for creating a livelihood opportunity rather than just a side enterprise. With such a central anchor content to living. A typical example of the last two role is the role a piece of land and its development can play for a poor family.

## 4. Attributes Of Assets - Roles

Attributes, which are inherent characteristics of assets, can become important considerations influencing the choices. Some of the most commonly understood characteristics are "value addition" being the income - stream- generating location: "liquidity" implying case of encashability. Other characteristics, which are also widely considered, are "gestation period" implying the time required before generating incomes and "security" indicating the stability of asset value. However, there are a number of other characteristics such as "divisibility", "threshold scale" and "social capital" which can play an important role in the poor person's choices of asset. Table 2 provides a list and description of various inherent characteristics of assets.

**Table 2 : Attributes of Assets - Inherent Characteristics**

| B | Inherent Characteristics | Description |
|---|---|---|
| 1 | Value-addition | Value-addition role in resource flows |
| 2 | Mobility | Ability to shift location without disrupting production |
| 3 | Liquidity | Easy encashability |
| 4 | Divisibility | Ability to divide into smaller scale productive assets |
| 5 | Complementarity | The interlocking of use-effectiveness with other assets/ Factors |
| 6 | Expandability/ Multiplicability | Scope to gradually expand scale or replicate |
| 7 | Appreciation scope | Scope for increase in financial value with passage of time |
| 8 | Threshold scale | Basic investment scale requirement |
| 9 | Absorbing labour | Capacity of creating employment / self-employment |
| 10 | Familiarity | Familiarity (of the asset) to the poor |
| 11 | Incrementality | Possibility of increase of scale in incremental steps |
| 12 | Versatility | Possibility of multiple usages / applications |
| 13 | Sociability | Whether its promotes higher constructive social interaction leading to formation of “social capital” |
| 14 | Visibility | Whether assets are physical or intangible |
| 15 | Transferability | Scope to transfer asset by way of sale / inheritance / gifting etc. |
| 16 | Gestation | Time required between asset creation and generating income stream |
| 17 | Security | Security of the stability of asset value |

Asset can also be typified in terms of their tangible and intangible nature. Such a typology of assets with a few examples is presented in Table 3

**Table 3 : Typology of Assets**

| Categories | Tangible | | Intangible |
|---|---|---|---|
| | Non-Living | Living | |
| Fixed Mobile | Land<br>Equipment<br>Financial Assets | Trees<br>Livestock | Social capital<br>Skills |

## 5. Process of asset-building

Contrary to quick – shot expectation, asset building does not occur only through the process of purchase. One can easily identify six processes of asset building ranging from creation to transfer to the process of capitalization. These asset building process are described in Table 4 below. In operating programmes, it is important to simultaneously track through two perspectives – one, the microperspective of the family level and two a society- level-perspective. It is worth exploring whether the process of asset building is a net-positive wealth creation process, as in case of transfer of assets. It is also important to understand that assets can also take the form of social capital, which can in turn reduce the scale of investment requirements through a healthy demonetization process.

**Table 4 : Process of Asset- Building**

| No | Process Options | Description |
|---|---|---|
| 1 | Creation | By way of creation or “first-hand” purchase, so that there is a net positive wealth creation in society |
| 2 | Acquisition/ Usurping | By way of means which involve transfer of asset from another user- no net wealth creation, as in case of purchase of ‘second hand’ asset or gifting |
| 3 | Breeding | The asset would multiply by way of existence-eg goat keeping |
| 4 | Capital formation | Build –up of financial capital |
| 5 | Social capital building | In addition to income generation, whether it leads to group formation, building up solidarity etc |
| 6 | Congealing | Asset creation out of labour-eg Developed land, planted and grow orchard |

## 6. Framework for analysis

Understanding assets in terms of their roles and their characteristics helps to provide some insight into the perspective a family may have on the different assets. These perspectives, from the standpoint of the specific situation of the family would decide the choice and preferences for particular assets. Table 5 provides on analysis of a few sample assets by these attributes.

**Table 5 : Analysis of Assets by Attributes**

| Sl No | Attributes /Assets | Land: Eg: Medium quality dryland | Eqpt: Eg Diesel pumpset | Trees Eg horti-Culture Orchard | Trees: Eg Eucalu-ptus | Live-Stock Buffalo /cow | Live-Stock: Goats | Skills | Socialcapital |
|---|---|---|---|---|---|---|---|---|---|
| **A** | **Roles:** | | | | | | | | |
| 1 | Income Stream | v | v | v | v | v | v | v | - |
| 2 | Insurance | v | v | - | v | v | v | - | v |
| 3 | Savings | - | - | - | v | - | v | - | - |
| 4 | Anchor | v | v | v | - | v | v | v | v |
| 5 | Meaningful life | v | v | v | v | v | v | v | v |
| B | **Characteristic** | | | | | | | | |
| 1 | Value addition | X | v | v | v | v | v | v | X |
| 2 | Mobility | X | Lo | X | X | v | v | v | X |
| 3 | Liquidity | X | X | X | v | v | v | X | X |
| 4 | Divisibility | v | X | X | v | X | v | X | X |
| 5 | Complementarity | Hi | Hi | Med | Lo | Hi | Lo | Med | Lo |
| 6 | Expandability/ Mulitplicability | X | X | v | v | v | v | X | v |
| 7 | Appreciation Scope | v | X | v | v | v | v | X | X |
| 8 | Threshold | Hi | Hi | Hi | Lo | Hi | Lo | Med | Lo |
| 9 | Absorbing labour | v | v | v | Lo | v | v | v | - |
| 10 | Familiarity | v | v | v | v | v | v | v | v |
| 11 | Incrementality | X | v | v | v | X | v | X | X |
| 12 | Versatality | v | X | X | X | X | X | X | v |
| 13 | Sociability | X | X | X | X | X | X | v | v |
| 14 | Visibility | v | v | v | v | v | v | X | X |
| 15 | Transferability | v | v | v | v | v | v | X | v |
| 16 | Gestation | Med | Lo | Med -Hi | Med | Lo-Med | Lo | Lo | Lo |
| 17 | Security | Hi | Hi | Hi -Med | Hi | Med | Hi-Med | Hi | Hi |

## 7. Effectiveness of asset-use

Any development initiative that aims to build up the assets of the poor hopes to build these up as productive assets or 'capital goods'. They are expected to generate a revenue stream by virtue of their use for various productive purpose. However considering the wide range of other interlocking factors that decide the outcome of such an enterprise, the 'direct' creation of an asset through an anti-poverty programme does not necessarily guarantee the anticipated income stream.

Even when they have been used for the planned purpose, often times gradual erosion of the assets is observed as a result of a gradual eating away of the capital. This can be seen very often in case of livestock where the distributed animals served initially as an income stream and subsequently erode in productive capacity as a result of lack of continuing investment- an eating away of the capital in a way. The role of land as a productive asset is even more complicated because its interlocking with other factors is probably the strongest and it is relatively more difficult to divide(for small parcels) and dispose off.

Assets created under various anti-poverty programmes such as the IRDP, were very often disposed off in times of need or are kept unutilized as a fall- back saving, rather than being used for regular livelihood activities.

When this is the situation of assets of the poor in general, even when given as grants, it is not difficult to understand the predicament if asset formation is solely through credit- whether mainstream or through microfinance.

Creating capital asset with the poor and ensuring that they remain 'performing asset' for them cannot happen unless the interlocked nature of poverty is taken head-on.

## 8. Supporting asset building: Need for a comprehensive approach

Against the background of the above experiences, there are equally bright experiences where more holistic interventions help in more effective tacking of the interlocked problems. Such efforts have departed from the generally adopted approach in four important ways:

- They analyse assets from user perspective

  Taking into account the role attributes and the inherent characteristics of the assets and analyzing them from the perspective of the user's situation, a programme is developed with a choice of assets that meets the needs of the user. It is often found that asset building which attributes to the livelihood-lifestyle roles has a long term effectiveness. While those which have a larger number of inherent characteristics often have a higher short-term preferences for the poor.

- They grapple with a wide range of interlocking factors

  Particularly, balancing inputs required, access to markets, forward and backward linkages, etc and putting in place the appropriate Business Development Services. Thus the complementarity characteristic of the asset is properly understood and acted upon.

- They strongly engage various factors internal to the mindset of the poor. Not just imparting knowledge and also skills (which is very crucial indeed) but also building up confidence through incremental development efforts, establishing role models and building a vision
- They go beyond conventional measures of economic feasibility analysis and assess feasibility for the poor.

Particularly looking at not just Benefit-Cost rations or IRR but looking at viable units of operations, the cash flows accruing for daily sustenance , the gestation period, the return to labour and the size of investment required.

These are the experiences drawn from some effective programmes with some of the poorest communities in India:

- The comprehensive 'WADI' programme for tribal development being implemented by DHRUVA which helps poor families to develop gradually, with their own efforts a highly productive farming system including horticulture, agro-forestry, small scale irrigation, improved agriculture as well as processing and marketing of form produce
- The Comprehensive livestock development programme being implemented by BAIF helps poor farmers to develop at their doorstop a highly productive cross-bred cow starting with non-descript low yielders
- The Janatthan programme with its methodology of mapping each family's resource base identify the right intervention through a participatory micro-planning process and build-up a series of interventions through an interactive process
- Tasser silk worm rearing introduced by PRADAN in Jharkhand
- Small scale irrigation based livelihoods promoted by numerous organizations such as AFRAM, PRERNA and AKRSP

It is thus certain that the challenge of asset building with the poor is not insurmountable but it is not simplistic either. Microfinance agencies therefore need to tackle it in a very well thought and mature way.

# Microfinance and Inclusive Development

*G Muralidhar**

*"Poverty is an affront to human dignity, and a cost to the economy and the polity. Poverty creates vulnerability, dependence and helplessness. It deprives society of the productive energies of a substantial segment of its population, contributing to instability and social unrest."*

*"Earth provides enough satisfy everyman's need, but not any man's greed".*

*- Mahatma Gandhi*

**Community-owned Microfinance +: Towards Inclusive Development**[1]

**Global Situation on Ground**

IFAD Report on Rural Poverty 2011 informs us that there are about 1.4 billion people living on less than US$1.25 a day, and close to 1 billion people suffering from hunger. South Asia, with the greatest number of poor rural people, and sub-Saharan Africa, with the highest incidence of rural poverty, are the regions worst affected by poverty and hunger. Levels of poverty vary considerably however, not just across regions and countries, but also within countries. The livelihoods of poor households are diverse across regions and countries, and within countries. Livelihoods are derived, to varying degrees, from smallholder farming - including livestock production and artisanal fisheries - agricultural wage labour, wage or self-employment in the rural non-farm economy and migration. While some households rely primarily on one type of activity, most seek to diversify their livelihood base as a way to reduce risk. Large numbers of households move in and out of poverty repeatedly, sometimes within a matter of years. So while there are rural households that find themselves in chronic, or persistent, poverty, relatively large proportions of people are poor only at specific points in time.

For people to move out of poverty for good, the specific areas of focus include strengthening community-level organizations and assisting them to identify new mechanisms of social solidarity; promoting the expansion and deepening of a range of financial services; and

[1] A note by G Muralidhar, Chief Mentor, Akshara [e-mail: muralivan@yahoo.com; web: www.aksharakriti.org], 11 June 2011.

*Akshara offers Livelihoods Support through Individuals and Organisations through Mentoring* - Identifying, catalysing, facilitating, supporting and mentoring – 5i for 5L *[5i - Ideas, initiatives, interventions, individuals, institutions for 5L - Life, Livelihoods, Leadership, Learning and Love] and Support in Livelihoods Learning Programs and Field Practice*

* Chief Mentor, Akshara

supporting social protection programs that can help poor households to build their assets, reduce risks and more easily invest in profitable income-generating activities.

Theory of Change towards Inclusive Development

Vision for Inclusive Development workers would include 'Every individual family is out of poverty and is able to lead a decent quality (of) life by having a decent portfolio of (sustainable) livelihoods or otherwise, with risks managed reasonably and assured social security' apart from equitable share for all in the fruits of growth/development. And this inclusive development is not at the cost of dignity and voice of the poor.

Poverty reduction (effective inclusive development) is a result of 'development triangle' of state, market and civil society aligned towards the poor.

- State's policies, business regulation, resources, services and support are to be conducive and aligned with the needs of the poor when state hears their collective voice and sees their solidarity.
- Fair Market, increased % of consumer rupee, and social responsibility of the market would result from increased bargaining power of the poor.
- Caring Civil Society (Institutions of poor and Institutions for poor - sensitive support structure network) would result from the expressed feeling of 'let us take care of ourselves, our resources and our needs'
- This happens when the poor are collectivised universally all across and their collectives pursue interests and business of their members relentlessly.

In this context, universally accepted core values and guiding principles for such inclusive development include -

- **Hope** that inclusive development is possible and poverty is eradicable
- Belief and **faith** that Poor have a strong desire to come out of poverty, and they have innate capabilities
- **Inclusion** and **ownership** of the poorest and poor, and meaningful role to them and their institutions in all the processes
- Social mobilization, building strong vibrant **institutions** and **collectivization** of the poor at various levels is critical for unleashing the innate capabilities of the poor
- Along with internal animators and collective efforts, an external dedicated **sensitive support** structure is required to induce social mobilization, institution building and empowerment
- **Facilitating** knowledge dissemination, skill building, and access to credit, marketing, and other livelihoods services enables them to enjoy a portfolio of sustainable livelihoods
- **Transparency and accountability** of all processes and institutions
- **Community self-reliance and self-dependence**

**Current Reality**

About 37-77% Indians are poor [Planning Commission - 37%; Arjun Sengupta 77%; NC Saxena -50%], if we Tendulkar's Estimates or if we go by World Bank's USD 2 a day as per capita expenditure. India is growing 8%+ growth rate but the poor are not fully included in the growth. Significant numbers of poor are outside of mainstream indicators of decent living and livelihoods. Still the minimum wage in the country is not adequate to cover the costs of survival (USD 2 a day). A family of four with two working adults with about 250 workdays each would have to earn about Rs. 1.3 lakh per annum or Rs.250 per workday per adult. If we take purchasing power parity, this may become Rs.125 per workday per adult. Incidentally, this is the average minimum wage in the country for an unskilled labor. Thankfully, Mahatma Gandhi National Rural Employment Guarantee Scheme has changed this scenario to an extent by increasing the available workdays and the wages the labor get.

In most traditional occupations, the poor have discovered that they do not remunerative returns. They would not like their children to get into them and the children themselves are reluctant to be in them. Only the youth with no other alternative are persisting in them. Unfortunately, the numbers that need to be accommodated in alternative livelihoods is not small. In fact, they form the majority.

While we are successful in achieving very high enrollment of the children in schools (more than 90%), our retention is not very encouraging and the drop out upto Class X is two-thirds. Drop out upto graduation mounts to five-sixths. This is not it. The pass-outs have very low employability competencies. Except medical graduates and to some extent, engineering graduates, the employability threshold is less than 10%. Our experience shows even our graduates show mediocre 3R skills.

Education and Skill Development for Employment/Entrepreneurship is the surest way out of poverty, if there are no leakages in terms of uncontrolled expenditures and unforeseen risks. Most poor spend near to 50% on their food and related items. The next in line are health expenditure and interest on loans. They cope with risks through multiple livelihoods, often numbering in to-digits in a family. Savings are near zero except in the form of small live stock and low cost jewelry.

Banking is still to reach many of them {only 40% Indians have bank account]. Formal credit is meager. Low cost insurance for life is beginning. Health insurance is being considered. Cattle, asset and other non-life insurances are mostly linked to formal loans so far. Remittance while on migration is a costly affair. Equity for investments in small-scale but risky business propositions is not available. When old, decent pension is still not available except for a paltry Rs.200-500 per month survival pension from government.

Many of the poor producers and service providers receive a fraction of the consumer rupee [reckoned at 20-30% by various estimates]. Collectivization for purchases, sales, local value-addition and some production can help them to increase this fraction significantly is being realized/ appreciated. Yet we do not see collectivization to the extent one would like to see.

Finally, we are all aware that poverty reduction is a function of organized poor to fight their poverty. The organization is not yet significant in the country.

This situation has begun to change significantly across the country, over the last two decades. Thanks to the efforts of Government Projects and the efforts of the civil society across. Milk farmers were organized into cooperatives. Poor women are getting organized into SHGs and SHG federations. Microfinance services are reaching the families. These efforts are founded on the hope that poverty is eradicable and faith that poor have capacities to fight their battles against the poverty and the causes of poverty. State, pressurized or otherwise on its own realization, has been making space for poor to come together. SHG movement is building up.

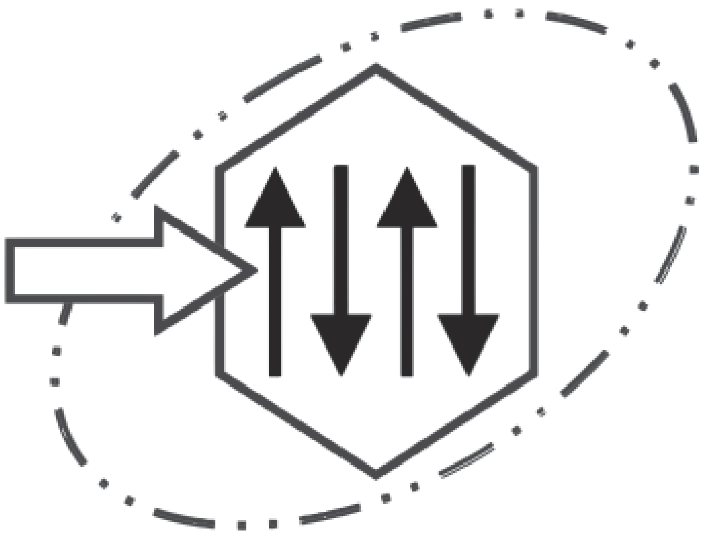
7 million SHGs (100 million men/women) are on record with bank accounts. Society for Elimination of Rural Poverty (SERP) alone facilitates 1 million SHGs in Andhra Pradesh. Taking out non-poor and duplication, we can reckon that at least 30 million poor women are in SHGs facilitated by Government Projects. At least another 10 million poor women are in SHGs outside in the realm of the civil society organizations. Together, they have achieved, indicatively speaking, member savings exceeding Rs. 6,000 Crore, cumulative member credit exceeding Rs. 50,000 Crore and Bank Linkages outstanding loans exceeding Rs.28,000 Crore. More than 1.7 million SHGs could access bank loans in in Andhra Pradesh, with an average loan size of Rs.1.8 lakh per SHG. National Rural Livelihoods Mission has been formally launched on 3 June 2011 to organize 70 million more poor families. Note that SHG movement is savings front-ended with internal lending of the savings and bank linkage loans to SHGs. Slowly other microfinance services are getting loaded on the groups - insurance (life, health, asset/cattle and loan). Other collectivization has been loaded onto the SHGs. SHGs themselves could federate at higher levels at village/ cluster, area/mandal/block level and district/city levels. They in turn have started to source bulk loan at the higher level. A state level women's financial cooperative is in the offing in AP. Anytime now. It is to be noted here - the surpluses generated in the process are with the members/community or their institutions. It is a movement of community owned financing mechanisms.

Muhammad Yunus inspired Grameen model of microfinance has also grown leaps and bounds across the world during the last one decade. Yunus himself and his Grameen has been awarded Nobel Peace Prize in 2006 for his micro-finance effort. Their reach has exceeded 50 million poor with cumulative loan amount exceeding Rs.25000 Crore. Note that Grameen MF campaign is loans front-ended. Slowly other microfinance services are getting loaded on the groups - insurance (life, health, asset/cattle and loan) and remittance. Mostly privately owned capital, leveraging again bank money, is being lent here. The surpluses that get generated in the process go to private investors, mostly outside of the poor. Of course, it is a private business proposition, may be, for a social cause.

Micro-equity and micro-pension services are coming in on a small scale.

Banks are responding to increasing the availability of banking services to the poor through banking correspondent model(s), mobile banking and e-banking.

Let us step back a bit. We appreciate that Inclusive Development would mean Sustainable Livelihoods to the Poor. The poor should have favorable context for them to pursue livelihoods that provide them decent incomes to afford 'fine' living.



Four Contexts –Ecological, Techno-economic, Distribution Pattern, Investment-Expenditure Patterns
Six Capitals – Natural, Physical, Social, Human, Financial and Spiritual – Knowledge-Skills-Resources
Four Arrows – Income, Expenditure, Employment, Risk - Outcomes

We understand that poor have multiple income sources (multiple livelihoods) and multiple expenditure drains (Time, Energy and Money) with multiple risks. We also understand that the livelihoods are interlinked and dynamic in multiple ways and are tailor made to their context. We know that they are producers and service providers on one hand and consumers on the other. They are sellers and they are also buyers.

They also have some paradoxes around them -

- Most of them take credit and they have access to multiple sources of credit with a variety of terms of credit. Still their absorption capacity is huge and they still look for livelihoods finance. They are looking forward to owning their own bank(s).

- They see lots of unused/defunct infrastructure all around. Yet they prefer more to go in for more infrastructure and new infrastructure. Still they need infrastructure to 'hold' products to realize higher price in the market. Sometimes, their stamina to 'hold' or hold themselves is not adequate.
- Strange are the ways of Commodity Markets. Market wants that the poor do not want to produce and the poor produces that the market does not want. Whatever the poor wants to buy, it is costly and whatever the poor wants to sell, it is cheap.
- Unfortunate, on an average, the poor producers realize a meagre proportion of Consumer Rupee. It is a little over 20%.
- We have so many unemployed amongst us. If we go to employers, they talk about jobs for which there are no suitable candidates.
- We are a varied, diverse country. Yet the vocations available for training are in hundreds. They should have been in thousands, if not lakhs.
- We do a quality work on small scale. When scaled-up, quality is the major loser. Quality on scale is a serious paradox.
- While we have unmet local needs, we work to meet distant/non-local needs.

Let us also appreciate some contours of the poor. They produce and sell. They also buy and consume. They have risks. They bear them and cope with them. They can be de-skilled and re-skilled and they learn faster. Their livelihoods are inter-linked. Many a time, they occur in clusters. Their basic consumption items are less and small. They are mostly self-employed and entrepreneurial. Of course, there are large numbers of similar kind of entrepreneurs. No poor would like to live in poverty and they are always ready. If they appreciate opportunities, knowledge, resources and some push towards accessing these is available, they get going. Their needs change and therefore, they outgrow facilitation faster. Finally, their resilience is enormous – they survive where others would have died!

Existing experience in working with livelihoods of the poor throws some critical concepts - Work with Existing First, Least Cost First, Skills First and Market (particularly local market) First; Address the entire (or critical part of) value-chain; Distinguish what can be done collectively and what can be done individually; Partner where possible and feasible; Remember nearly half of the poor are wage labour; What works at the micro-level may not work at the macro-level, there is a micro-macro play; There is a need to combine what the poor with what others have, in terms of knowledge-skills-resources; there are best practices within for others to adapt; the plans have to be built on the foundation of their current reality; they need multiple doses of support; and their livelihoods, they need to decide.

Current Reality Assessment of the poor builds the Livelihoods Enhancement Action Plan (LEAP). The Participatory Assessment tools (popularly known as LEAP tools) include - Social Mapping, Resource Mapping, Traded-in & Traded-out (at a location), Income &

Expenditure Pattern Analysis, Livelihoods Mapping, Value-chain Analysis, Livelihoods/ Farming System Analysis, Seasonality, 24 hour Analysis, 365 day Calendar, Local Gaps and Opportunities Analysis (for Wage Labour, CPRs, NTFP, Local Opportunities for existing and new products/services, Jobs and Enterprises etc.).

**Context, Some Trends and Way Forward**

- India is growing at a fast pace. But this growth is increasing the chasm between the poor and the rich. The new divides are emerging. Inclusive growth is still to happen. The poor still constitute more than 75% (if we take $2 a day expenditure norm). India is trying to reach out to them in a variety of ways – Mahatma Gandhi National Rural Employment Guarantee, National Rural Livelihoods Mission, National Rural Health Mission, Right to Education, Food Security Act, Social Security for All … There are also Civil Society Initiatives. Yet the efforts are not enough.
- The state is withdrawing on one hand through Liberalization, Privatization and Globalization, and is increasing its presence on the other. The charity is coming down but the venture capital and angel investments are growing. Large Government Projects, Corporate Social Responsibility Efforts, Large NBFCs, Large NGOs and Large CBOs are in and small NGOs are losing relevance and significance. Social Enterprises are growing. Credit to the poor through bank linkages and otherwise is increasing but the Ideas to utilise the funds are few.
- The Climate Changes are picking up pace. The Pace of Life has increased. Our population is also greying. It is also becoming more literate.
- While we are moving towards Right to 15-years Education, huge dropouts from schools up to Class X – 60%+ - are seen. 3R – Reading, Writing and Arithmetic - skills are weak across. English and Mathematics are the two subjects where large numbers flunk. Language Skills in general and English in particular are low. Most surveys confirm that employability is less than 10% in 'educated'. Life Skills and Skills for employment are low. Yet they are reluctant to take up any traditional occupations.
- The Secure Livelihoods are 'off'. Sectors the employ large numbers are overpopulated. Many traditional/age-old professions are shrinking and are not able to offer decent income; many of them are leaving these occupations. These include agriculture, weaving etc. Many livelihoods are not remunerative. The wage realized is far lower than minimum wage and the no. of days of employment is not even half. Most producers and service providers realize a meager 20 paise from the consumer rupee.
- Yet, there are gaps in value-chains that can be plugged; and opportunities that can be tapped with proper leads/support. There is also scope and need for new livelihood opportunities – urban, ICT, skill-based, soft skills etc. - reaching the poor. They need a little push. A little organization. A little window.
- Prosperity Paradigm with rights-based approach has replaced Poverty Reduction Paradigm.

- There is a need for bright minds and there exists a huge Human Resource Gap in servicing poor.
- The Premise - Poor are organised/willing to be organised into affinity groups/common interest groups and higher order organisations for their common good. They are aware of costs and benefits of collective effort. They have certain level of capacities, certain knowledge and skill-base and certain resource base. These need to be supplemented; further they might require certain hand-holding support. All projects are people's projects (Poor decide, plan, implement, monitor, evaluate and follow-up) as Development is theirs and the benefit is theirs
- Way Forward Trends - an individual needs fish first to survive, fishing skill to live on fishing and meta-fishing (beyond fishing) skill to identify the gaps and opportunities, acquire the required skills, tools and resources and tap them for better living. Harnessing one's innate potential along with life skills and vocational skills is way forward for children/youth. Education à Employment &Entrepreneurship à Decent Livelihoods.
- At the same time, existing livelihoods need to be strengthened with plugging knowledge, skill, tool and resource gaps, and Collectivization. Expansion and diversification in livelihoods is on the foundation of improved existing livelihoods base. Job-employment, Wage-employment, Piece-rate based employment and Self-employment - to be carefully tailored on a case-by-case basis.

**Impact of MGNREGS**

MGNREGS over the five years has been impacting the poor in a significant way. Our study in AP brings out –

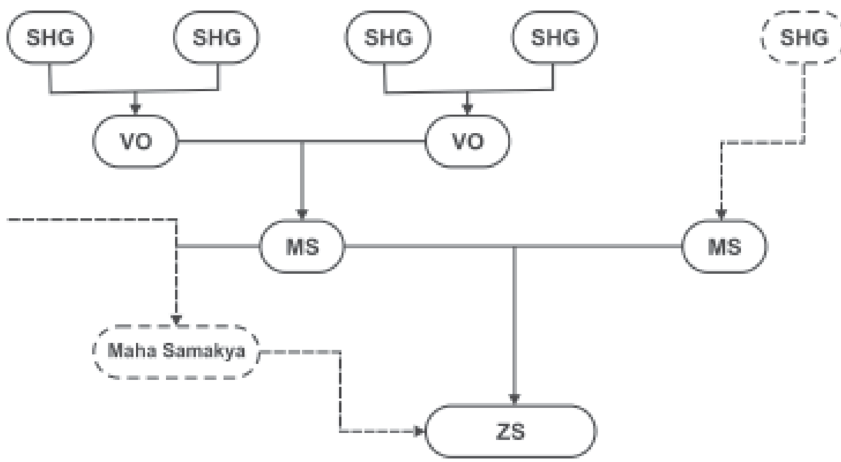
- Despite high food inflation, the expenditure on food is still hovering around 40% of total expenditure, which is now at Rs.50,000 per annum. Expenditures on Education, Health and Communications are also significant.
- Banks, SHGs and MFIs meet the half of the credit requirements of the poor. Remaining half comes from money lenders, traders, relatives and other informal but costly sources. Average Loan per family has increased four times and it is about Rs. 40,000. Average loan size of MFI is higher than the loan size from SHGs. People who save have increased and SHGs are the most dominant in taking savings (75%). Village chits are still a significant way to save.
- Livelihoods portfolio added mostly in the non-farm and business domains, apart from MGNREGS.
- Insurance coverage has increased – for life, health.
- School going children have increased.
- Most stakeholders have perceived MGNREGS's positive impact in the following areas

– income, labour rates, food security, savings, clearance of high cost old debts, increased confidence and bargaining power, reduced distress migration and period of migration, education, health, agriculture and livestock, new livelihoods, permanent and livelihoods assets including houses, etc.

- It has proved to be reaching the needy and impacting the poor, particularly SCs and STs and their poverty. Negative impacts perceived include – unusual increase in labour rates and non-availability of labour and increased alcohol consumption.

**People's Institutions in AP, for example**

Andhra Pradesh has the highest number of Self-help Group in the country. As at end of January 2011, about 11 million women are organized into about a million SHGs, and federated into 38,000 VOs, 1,099 MSs and 22 ZSs, under the aegis of Society for Elimination of Rural Poverty.




VO - Village/Cluster Organization of 100-300 members in 10-30 SHGs
MS - Mandal Samakhya/Block/Area SHG Federation of 5-30 VOs or 3000-6000 members
ZS - Zilla Samakhya/District Federation of MSs

In some sense, most of the poor in AP have come in to the fold of SHGs, barring some 5-10%. In fact, some of them may be in multiple groups - groups facilitated by SERP and groups facilitated by Civil Society Organizations. SHGs remain informal groups with 5-20 members. Most of them have bank accounts and a majority of them have been bank-linked for credit. VOs are the registered primary mutually aided cooperative societies. MSs are the registered federations of VOs at first tier. ZSs are the registered federations of MSs. All these institutions have reasonable statutory compliance history. These institutions have their general body/representative general body at the ultimate level, governing body/board/ executive committee takes the operational decisions. Sub-committees, in some cases, take up specific mandated work/function.

The office bearers at various levels are 2-5 leaders as follows -

SHG: First Leader and Second Leader or President and Secretary or President, Secretary and Treasurer;

VO: President and Secretary or President, Secretary and Treasurer;

MS: President, Secretary and Treasurer or President, Vice-president, Secretary, Joint Secretary and Treasurer;

ZS: President, Secretary and Treasurer or President, Vice-president, Secretary, Joint Secretary and Treasurer

All the institutions have bank accounts, operated by office bearers. Some of them do have multiple accounts. While internal lending is common, there are funds in the SHG account but not taken by the members. Similar situation does exist at higher levels to some extent. The corpus funds at VO and MS levels have also shown increase in many a case. At MS level, the corpus fund is in the range of Rs. 6-20 million. This amount is lent to VOs and SHGs to derive some income for the institutions. Using Micro-credit plans and Total finance inclusion plans, SHGs are able to link with banks and get loans to the extent of Rs. 0.5 million. The average bank loan to SHG is reckoned at Rs. 180,000 now. In turn, the members are able to get loans up to Rs. 100,000 (and beyond in exceptional cases). ZSs are generally not in the credit function. Their major involvement is in insurance, as an agent of insurance companies. Community-based risk management mechanisms are also coordinated by ZSs. Examples include health and cattle. MSs are also facilitating collectivization purchases, sales and local value-addition. Examples include dairy, marketing of agricultural produce and non-timber forest produce, food security, raw material supply, etc. Sustainable agriculture and non-pesticide management is also spearheaded by them in some areas.

The SHGs follow the Shatsutra - meetings, attendance, books, savings, internal lending, and repayment - by and large. Bank linkages are pursued vigorously. Collective efforts are being loaded on this foundation in terms of insurance, health, food security, collective purchases, sales and local value addition and collective micro-enterprises in that order. While most SHG meetings are monthly, weekly meetings are not uncommon. The peer audit, internal audit and external audit is common at SHG and higher levels. Savings are increasing. Some savings beyond SHG are also picking. Largely, the savings in SHGs are perceived to be safe. In some SHGs, the savings do attract interest and dividends annually or added to the savings.

While these institutions have norms and sanctions, the visioning of these institutions can be more universalized. Bottom-up planning is more a ritual/tokenism and this area needs attention. Further, the activities of the SHGs and their federations are stand-alone silos and are not part of the integrated plans, quite often. Thus, the accountability is flowing more towards the activity anchors rather than to the institutional management/governance/ leadership.

Large numbers of leaders have been evolved. Leadership in the institutions has matured. Rotation is seen. There are cases of same people continuing in leadership for unusually long periods. Some leaders have graduated to higher tiers. Some have switched roles within the leadership/office-bearers. Some leaders have evolved into Community Resource Persons at various levels in a variety of themes. Still, second generation leadership is an area that needs attention.

Staffing with the institutions is now more systematized. There are staff fully paid by the institutions and accountable to them. There are some staff paid by the project. There are some staff paid as per the work (piece-rate payment) and there are leaders and volunteers who chip in their time and paid some token payments (wage compensation and actual expenditure). Staff cost (and other routine recurring cost) coverage is increasing across.

In the process, AP could build huge numbers of human resources to serve the community and the institutions of the poor -

- **2.5 million** trained grassroots women leaders managing S.H.Gs and federations
- **200,000 para professionals** at village level - accountable to women's groups
- **20,000 Community resource persons** - scaling up and deepening social mobilization

Other major state with SHGs is Tamilnadu followed by Kerala and Bihar. In the civil society front too, there are a good number of poor women in SHGs - Sri Kshetra Dharamsthala has exceeded a million poor families; DHAN has crossed half a million; and MYRADA, OUTREACH, PRADAN, Sakh-se-Vikas (in Rajasthan), Rajiv Gandhi Mahila Vikas Pariyojana in UP, medium-sized NGOs, may be 100, with more than a million members. There are also a substantial number of men SHGs, SHGs of disabled etc., in the country.

If we look at carefully, this SHG foundation, we realize that savings and credit is the glue of the base institution - SHG. Bank Linkages is more or less universalized. SHG Federations are also seeking bulk loans from Banks and other institutions.

The major activities by the SHGs and SHG federations across include -

**Activities that serve the core of these SHGs and SHG Federations**:

- Social Mobilization - Institution Building Community Resource Persons (IBCRP)] to saturate social mobilization of poor households;
- Bank Linkage - Community-based Recovery Mechanism (CBRM) to improve the repayment percentage and also to support the institutions in resolving issues related to bank linkage
- Bank Linkage - Master Bookkeepers (MBK) to provide technical support in good and transparent bookkeeping practices aid in bank linkages

- Bank Linkage - Microcredit Plan (MCP) is a family investment plan prepared for individual households and their consolidation at SHG level and above
- Bank Linkage - Total Financial Inclusion (TFI) to enable the members to swap the high cost debt with low cost debt and to meet all the needs of SHG members through formal financial institutions
- Bank Linkage - Bank Mitra to facilitate easy transactions of SHGs in bank in each bank branch
- E-bookkeeping - through laptop and/or mobile - to aid in financial inclusion of the members of SHGs and their federations

Activities aimed at harnessing the intermediation opportunities of SHG Institutional structure(s):

- Risk reduction - Abhaya Hastam as community managed insurance program - to provide insurance among SHG women against risk of unforeseen death or accident and pension during old age
- Risk reduction - mobilizing/enrolling the beneficiaries in Aam Admi Bima Yojana, Central government sponsored insurance scheme for landless agriculture labour households where the beneficiary has to pay only the service charge and the premium amount is shared between the state and central governments
- Risk reduction - Insurance call centres at district level are initiated with a view to facilitate quick and easy settlement of claims
- Risk reduction - Bima Mitra, a community level activist - to help the bereaved families in applying for the claims apart from providing immediate assistance after the death of the policy holder
- Social Security - Pensions with contributions from members
- Community managed health insurance and service program
- Community managed cattle insurance program
- Food security Programs like rice credit line and grain bank to ensure year long food security to the poor
- Livelihoods Promotion - Collective procurement and marketing of agriculture, horticulture and Non-timber Forest Produce (NTFP) to eliminate unfair trade practices, to enhance the incomes, to provide remunerative prices and to increase bargaining power of small and marginal farmers, and also to generate profits for the community organizations
- Livelihoods Promotion - Dairy - Milk collection centres and Bulk Milk Cooling Centres through convergence with existing dairies
- Producers Groups and Livelihoods Collectives (MACS/Producers' Companies) to intervene in the complete value-chain(s)

- Program to access and ownership of land, its development and cultivation
- Community Managed Sustainable Agriculture (CMSA) - to practice non-pesticide and organic farming, reduce cost of cultivation, provide nutritional security to the farmers' household and enhance the natural resource base
- Program to access and own house sites and build/repair houses
- Jobs program to bridge the gap between the job seekers and job providers by providing appropriate skills to youth thus enhancing the incomes of their households
- Social development - Gender - Family Counselling Centres to provide support to the needy members
- Health and Nutrition (H&N) related innovations such as health savings, health risk fund, establishing nutrition-cum-day care centres and fixed Nutrition and Health (NH) day to reduce health expenditure and related indebtedness among poor households and to ensure healthy development of women and children
- Early Childhood Education (ECE) centres to provide quality early childhood education and Tuition Centres
- Scholarships and corporate education programs to support poor households to take care of their children's education.

Activities implemented through CBO structure to achieve better targeting and accountability:

- Distributing pensions to the old age, disabled and other vulnerable people in the village
- Identifying beneficiaries for government's housing programs and providing bridge loans
- Identifying works under MGNREGS that benefit the poor and monitoring the works
- Zilla Samakhyas as outsourcing agencies by government departments for providing person-power at various levels on commission basis

Our studies in South India reveal that some of the strategic activities/innovations such as micro-insurance and MCP/TFI based Bank linkages etc., qre universally being implemented; other activities/innovations such as health and nutrition, food security, disability, sustainable agriculture etc., have found their acceptance among the community and are in a stage to takeoff; and some other activities/innovations particularly collective economic activities are on a small scale.  A study of the purposes for which the members used the loan amounts indicates that the community has graduated from meeting their survival and debt redemption needs to invest in the diversification of their livelihoods portfolio. Further, there is a clear visible and articulated empowerment of women attributable to they being in these institutions. The gender empowerment related indicators such as increased mobility, increased recognition, and reduced violence, and to be able to take independent decisions etc., have shown significant positive improvement.

The basic three-four tier structures of institutions of the poor promoted through various support structures have been reinforced / strengthened with increased capacities of community members to take charge of their own institutions. Needless to say, these institutions are building the confidence and unleashing the innate abilities of poor, women in particular, to overcome poverty. On the other hand, the members have demonstrated that they can take charge of their own institutions and perform the roles and responsibilities hitherto performed by the support structures. Of course, they may need some capacity building and nurturing. A comprehensive vision plan needs to be built so that the institutions can increase the scale in terms of numbers, range and intensity of their activities to benefit more number of people on a sustainable basis. This can be further accentuated by fulfilling the need for the emergence of livelihoods and other specific purpose collectives at various levels, state/national people's bank(s), state level solidarity and support structures of the community etc. The numbers and capacities of community resource persons and paraprofessionals have to be increased significantly. There is also a need for exploring opportunities for providing jobs and services in rural areas and the youth can be trained in those skill sets that match these opportunities. Further, required financial, technical and other support can be provided to the youth for self-employment and individual/collective enterprises.

However, there is still a lot of dependency on the staff of support structures for the implementation of many activities. The support structures need to pave the way for the institutional evolution and taking over some of its current activities including project management and governance. The institutional grip, on the human resources servicing the institutions, needs to be enhanced significantly.

There is a need to find ways to build the existing corpus and revolving community funds further rather than allow them to dwindle slowly. The savings of the members, when pooled up at higher levels and remain in the institutions without being distributed amongst members and bulk financing linkages emerge, offer being the source of huge funds in the hands of the community. Then ideas matter rather than funds.

***An example of bulk borrowing plan of a MS [based on our study]***

MS is already engaged in the credit operations to the tune of about Rs.2 crore, both from its own and borrowed funds. There is a need for credit in the mandal (block) that is not being fulfilled at present to the tune of about Rs.5 crore. Further, the channels that the members do not prefer are offering credit to the tune of Rs.27 crore. MS has the systems and processes that are suited to the scale of its current operations. It would be able to enhance the scale of operations further by improving the capacities of staff and MS EC in:

- fund management, specially in relation to idle funds and matching the receipts and payment cycles;

- offering a basket of loans with varying terms to suit fund cycles and purposes supported, both at MMS and VO levels, rather than only one type of loans on standardised terms;
- looking at the broader picture of the mandal by consolidating outreach at the mandal level, obtaining socio-economic profile of members;
- monitoring the loan usage by visiting about 5% of SHG members taking loan in a specified period on a sample basis (instead of stopping at VO level itself); and
- facilitating regular grading of VOs and SHGs, and using the information in decisions related to lending operations.

The MS has shown extreme resilience and maintained its operations despite the absence of MS Coordinator/CEO for over six months. During this time, the MS Office-bearers managed all the affairs of the MS and continued its operations.

Following is the schedule of scaling-up of debt, as an illustration

**Expected own funds, debt funds, surplus from operations (in Rs. Lakh)**

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Expected own funds | 115 | 134 | 166 | 206 | 257 |
| Suggested debt funds | 100 | 250 | 300 | 400 | 500 |
| Expected surplus from operations | 0.85 | 4.93 | 4.27 | 5.74 | 8.13 |

Community-based savings and service charge/fee/premium-based institutional architecture for credit access, risk management, food, health and nutrition security, and social solidarity is showing signs of evolution. This evolution needs to be carefully nurtured on a sustainable basis, beginning with transferring the control on the processes to the institutions fully from the support structures.

The sector needs to find ways to reach out the community as directly and in as many ways as possible. It needs to audio, video and text document all its processes and struggles and disseminate as widely and in a variety of forms including e-magazine, web portal, dedicated radio and TV channel, and may be print magazine(s), in addition to books, modules, cassettes, CDs and slots in existing channels.

This is not to say that regular institutional **capacity building** effort to be diluted. The capacities of the institutions, their leaders, their resource persons, their staff and their members have to be focused on, in terms of information, knowledge, participatory analysis, tools and skills, best practices and comprehensive vision for way forward. The ubiquitous sharing and learning environment platform, of the institutions, needs to be nurtured. The trainers have to be available for this massive capacity building effort. The effort itself has to be comprehensive – fish to survive, fishing to have livelihood in the present and meta-fishing to cope with the dynamics of living and livelihoods.

**Cooperatives**

There are also thrift and credit cooperatives and other commodity cooperatives that are working. These are like SHG Federations at the village level except that the base is direct member rather than the SHGs. Further, of late, the members are getting organized into Joint Liability Groups and taking loans from the cooperative.

The commodity cooperatives are showing the way for the livelihoods and special purpose collectives.

Thus, we have poor having membership in SHGs on neighborhood basis and cooperatives based on business interest. This may be the model for our way forward.

**MFIs**

While SHG Movement is picking up momentum, various other microfinance providers continue to operate simultaneously. These include: Post Office, Chit (in the village), Chit Fund, Kiddy Bank, Money lender, Grain Bank, Seed Bank, Cooperative, Producers' Company, Cooperative Bank, Agents, Franchisees, etc., apart from Non-banking finance companies, Section 25 and NGO microfinance institution. When we say MFI in popular parlance, we mean mostly Non-banking finance companies, Section 25 and NGO microfinance institution. It is reckoned that some 1000+ MFIs are operating in the country and they are following the SHG movement in terms of outreach and amounts. The total loan amount from the MFIs is about 10-15% of the SHG loan amount in the country. Typically, NBFCs may not collect savings/deposits from the borrowers but they act as agents of insurance companies for offering insurance services. Their lending is up-front mostly to individuals in Joint Liability Groups. Apart from interest, loan processing fee and loan loss insurance is also collected.

In fact, Most of the microfinance services are being provided by a variety of organizations in a variety of ways. These informal/semiformal mechanisms meet majority of needs in the country, even today. SHGs are catching up but not anywhere near it. The variety is huge – mortgage loans, crop mortgage loans, goods and services on credit, transaction linked loans/advances (for wages, for produce etc.), lending to general and special purposes, multiple and differential loans, kind loans, kind repayments, equated instalments, equated principal investment, differential and wide interest range, etc.

In this context, formal MFIs and community financial institutions are in direct competition. Our studies find that MFIs meet only 5% of the credit needs while SHGs and banks meet about 40% of the credit needs in the rural areas. The effective interest rate, to cover the costs of servicing remote poor, is much higher, 24-36% and higher. But, the loan processing is almost immediate. There is a tendency for the poor to go in for the loan and end up finding it difficult to repay. Often, with multiple loans from a variety of sources with variety of terms with some of the terms being not friendly to the borrowers, the poor are drawn into debt-traps. The regulation of the MFIs is also weak, according to observers. The private equity is able to realize very high returns. Promoters' equity is able to realize 100-1000% and more returns. Under the circumstances, Government of AP, in its wisdom, has enacted MFI Act (in 2010) to regulate them. This has affected the business badly in general and for the small MFIs in particular. Slowly, RBI has stepped in and its Malegam Committee has reviewed the entire situation and has provided the guidelines. These guidelines are brought into force by RBI thereafter. However, the AP Act is also operational. Thus, a crisis situation is prevailing as far as the MFI operations in the country.

Under the circumstances, Government of AP is going ahead with establishing a people's bank (AP State Women Finance Corporation) with equity from Government of India and NABARD.

**Further observations on Livelihoods Gaps & Opportunities**

While SHGs and JLGs are organized around savings and/or credit, we notice that there are a large number of **Producers in Clusters** like toys, silk, milk, groundnut, sunflower, bamboo products, bangles, beedi, agarbatthi etc., and service providers. There is a need for providing raw materials, value-addition and marketing for them with significant economies of scale. It is possible that economies of scale may demand aggregation at higher levels. This offers business opportunities for community organizations and/or MFIs. All livelihoods and products are not amenable to standard tenures, equal installments etc. Products that require different EMI pattern and space for gestation and different tenures may need to be devised. Instead of money, products can be given like supply raw material as credit and take finished product as repayment. Further, there are opportunities for individual/group entrepreneurs to start enterprises that provide products and services to the clients. These ventures need large size loans with appropriate terms.

Similarly, there are a large number of clients/borrowers/members and others requiring 5 or 6 basic items regularly like rice, oil, dal, toiletries etc. Members/clients are taking significant numbers of emergency loans towards meeting their food needs. We also notice use of loans for consumption purposes although the stated purpose of the loan is otherwise. There is a business opportunity to supply of these items based on indent or through shops on credit or against cash or both. Further, these microfinance platforms and community institutions can be used for collecting and disseminating livelihoods intelligence, indents of the needs and distribution of services/products.

There are also a large number of entrepreneurs of similar kind – cloth, general stores, bangles, fruits etc., who can benefit by collective sourcing of products. There exists a business opportunity in sourcing products and supplying. We can also see that the products produced by one set of clients can meet the needs of other set of clients like cocoon producers and chandrika producers, cocoon producers and reelers, bangle producers and bangle sellers etc. These sets of clients can be linked to meet each other needs.

Also, the poor require credit to get jobs and to get rid of existing high-cost debts.

**Skills for Employment**

It is established clearly that education (including knowledge and skill building) is the surest way out of poverty. If 100 students join the schooling, only 35% are reaching Class X and only 15-16% are able to be graduates. Studies on Education have revealed that the 3R (Reading, Writing and Arithmetic) abilities for the students who have passed finally are abysmal. The employable in the 'passed out' is less than 10%. Those who have failed are not interested to get into traditional occupations. Thus, a large number of students, more than 20 million, join the potential work force every year, with no employable skills and mediocre 3R abilities. Fortunately, they have competencies, behavioral competencies required, albeit not the same, to learn, survive, perform and succeed. They have a reservoir of life experience and work experience.

Also, all of them are not equal. They are on various points on the continuum of Literacy-Education-Skills-Experience; they are on the continuums of traditional/existing – new and rural – urban; and they are on the employment continuum – wage – job – self-employment – entrepreneurship. Some of them would like to be entrepreneurs, some would like to do job in Individual/Collective Enterprises, some would like to do job work and some would like to do wage work. They can also join hands and be in their collectives. They can exercise choice based on their aptitude and ability.

In this context, there is a need to map the employment/job market, resources, livelihoods, skills, gaps and opportunities periodically and carry out the demand survey. Trades, Jobs and Vocations have to be enlisted and skilling modules have to be developed based on the demand. Skill seekers need to be enumerated and counselled with competence matching for appropriate skill development, using the best practitioners and competent trainers/resource persons. The vision of the trainee has to be developed and supported. Stipend till they get the first salary, placement in a suitable job and location, post-placement support etc., have to be improved. We notice lots of withdrawals post-placement and going back because of the costs of living, cost of remittance and inadequate skill development etc. The trainees need support in this transition. They need collectives too. We need to remember that there is placement possible in the areas they come from and in the domains they are already familiar with.

We now know that many of the young men and women can be entrepreneurs and start enterprises. An entrepreneur pursues opportunities relentlessly, with extremely limited resources. This is an attitude and aptitude and all will not possess this. Typical competencies of a potential entrepreneur include – Vision; Initiative; Results Orientation; Innovation; Critical Information Seeking; Interpersonal Awareness; Adaptability; Tenacity; Self-control; Strategic Influencing; Concern with Impact; Ability to Learn etc. If majority of these competencies are absent, there is no point in counselling them to be entrepreneurs.

Let us also note that all of them will not be able to build large enterprises. Most of them become self-employed with 1-2 associates. Statistics are pointing out that 55% of the enterprises in India are having no or one associate and 32% of the enterprises have 2 associates. The process of becoming a successful entrepreneur is long, beginning with skill learning and learning soft skills, followed by apprenticeship, becoming Independent, getting funds and linkages with handholding support/mentoring.

We need to support this. This is the key driver of poverty reduction of a family and their employees.

**Stakeholders/Partnerships**

There is realization in the poverty reduction efforts across that it is not possible to go this path alone. There is a need for help. There is duplication that needs to be avoided. Expertise is spread across that needs to be tapped. There is a need to sharing learning and practices. Solidarity matters. There is a need for collaborative advocacy. Some need to be sensitized. Some can do some things better but do not do it now. Some have money and other resources. Some have the power and authority. Some are trainers. Some have access to logistics and resources. Some are specialists. Some can train and some need trained people. Scaling up may mean more people doing it. In this context, there is a need to converge. There is a need to collaborate. There is a need to partner. There is a need to network and be in networks.

The stakeholders for partnership include the poor individuals/families; the individuals with abilities and interest; the state and its agencies; people's institutions, their leaders and staff; the civil society of various hues – implementation, training/resource etc.; bankers; donors; and the media.

**Global Understanding for Way Forward**

Globally, the focus is to achieve Millennium Development Goals as soon as possible, if not by 2015. The emerging consensus is that there is a need for focus on two areas simultaneously – smallholder agriculture and the rural non-farm economy.

This translates as increasing investment, according to IFAD 2011, in:

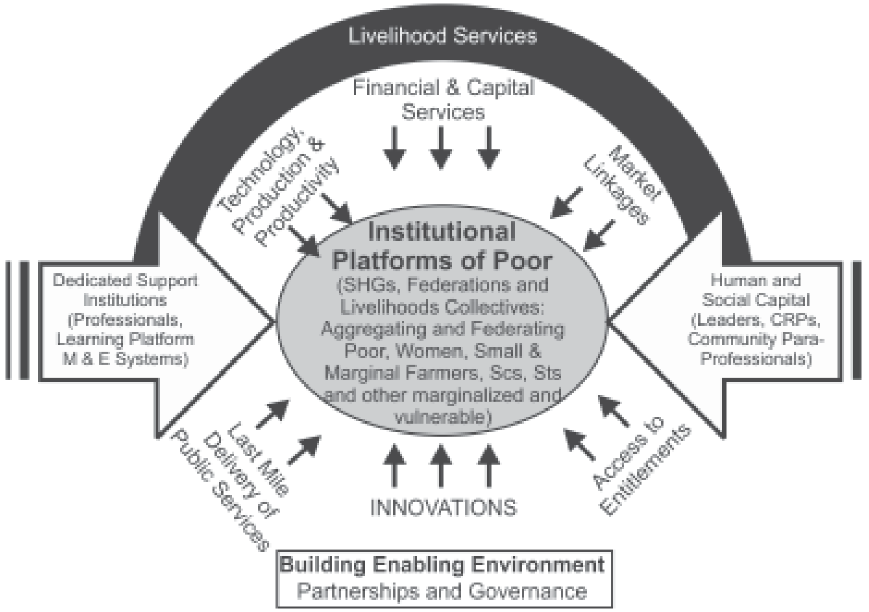
- Microfinance services [savings, credit, insurance, social protection, banking, equity and remittance];

- Knowledge, Education and Skilling [to take advantage of new economic opportunities in farm and non-farm economy in local areas and job market outside];
- Membership-based organizations to help poor reduce risks, learn new techniques and skills, manage individual and collective assets, market their produce, negotiate their interests in their interactions with the private sector or government, and seek state and market's accountability;
- Financing scaling up of successful small-scale initiatives; and
- Collective efforts, including new partnerships and accountabilities, and new ways of working between governments, the private sector, civil society and people's organizations.

**National Rural Livelihoods Mission (NRLM)**

Evolution of NRLM has to be seen in the context of building up SHG Movement and Global understanding on the way forward. Formally, it has been launched on 3 June 2011 at Banswara (Rajasthan) before 150,000 poor women. The task before it is to **reach out to 7.0 Crore rural poor households and stay engaged with them till they come out of abject poverty.** These households are spread across 600+ districts, 6000+ blocks and 6.0 lakh+ villages in the country. Estimated outlay for NRLM for 6-7 years is Rs.100,000 Crore.

It is a **demand driven** mission. States formulate their own livelihoods-based poverty reduction action plans, with clear space for the poor to drive the agenda through their dynamic plans, as part of the mission; these plans do include targets, outcomes and time bound delivery; continuous capacity building, skilling and linkages is the key differentiator;



and of course, *the overall plans would be within the allocation for the state based on inter-se poverty ratios.* Importantly, NRLM realizes and emphasizes the iterative nature of the processes.

NRLM, being conscious of the livelihoods activities being varied, it is focused on building, supporting and sustaining livelihoods of the poor by harnessing the innate capabilities of the poor and complementing them with capacities (information, knowledge, skills, tools, finance and collectivization). Towards this, dedicated support structures build and nurture institutional platforms of the poor at various levels. They in turn support the livelihoods agenda of the poor that includes coping with vulnerabilities, working with existing livelihoods, enhancing and expanding livelihoods options, building skills for job market and nurturing self-employed and entrepreneurs.

Its key features and commitments include -

- Universal Social Mobilization/Inclusion in the Institutions of the Poor [covering all poor beginning with poorest]
- Nurturing and Supporting Institutions of the Poor [for a reasonably long period]
- Democratic governance and self-management and reliance in institutions, including managing professionals
- Ownership - lives, livelihoods, funds, institutions, visions, plans
- Training, Capacity Building and skill building
- Community professionals
- Revolving Fund to Institutions of the Poor
- Interest Subsidy
- Universal Financial Inclusion
- Access to credit of Rs.100,000 per family [investing adequately in a graduated manner]
- Leveraging credit 10 times the grant/investment
- Household Plans for entire portfolio of multiple livelihoods and multiple needs, with increased choices and options
- Dynamic Plans to capture the changing needs and profiles
- Infrastructure creation and Marketing support
- Skills and Placement Projects through Partnerships
- Rural Self Employment Training Institutes for Self-employment and Entrepreneurship
- Innovations
- Convergence and partnerships [particularly with Banks/FIs; SPVs]
- Sensitive Support initially, to be facilitated into the hands of the Institutions of the Poor gradually
- Phased Implementation [reach all districts, blocks by 12th 5-yr Plan End]

## Conclusion

Reduced Poverty and Sustainable Livelihoods of the poor are possible only with Inclusive Development. The Indian growth has to persist. The contexts of the poor have to become favorable by deliberate policy initiatives at national, state and local levels. The capitals of the poor need to be augmented - increased natural resources in their hands, infrastructure and physical assets that they can use, strong institutions of the poor at various levels of various hues with professional staff, and the information, knowledge and skills in the hands of the confident poor along with their own funds and access to leveraged funds. Then they act on their incomes, expenditures, employment and risks so that they are out of poverty by plugging the gaps and tapping the opportunities, in their own way. A little support but long-term, beyond loans, is the way. MF is necessary but not sufficient. Range and depth of fair MF services have to be comprehensive and on scale. Further, MF+ is required and can be loaded on the MF platforms. Multiple players need to coexist and service the community needs fairly, efficiently and effectively in the growing Indian economy. That is the only way forward. This inclusion is led by the SHG movement that is being unleashed in the country. Various State Agencies of Poverty Reduction, Civil Society Organizations, People's Institutions and NRLM have to collectively make this a reality as soon as possible.

# Skill Building for Livelihoods

*P.Krishnamurthi**

There are many causes of poverty but ultimately the poor are poor because they earn too little from what they do. The level of poverty in poor households is often influenced by the possession of productive assets, employable skills, number of dependents and family life cycle. They graduate from one level to the other through external interventions by acquiring new assets, improving performance of existing assets, gaining employable skills and access to market linkages. However, the pace of graduation depends on the contextual and structural issues among the rural, urban, coastal and tribal environments.

Appropriate knowledge and skill are essential for the poor to successfully respond to the opportunities and challenges of social, economic and technological changes. Globally, there has been an increasing trend in number of youths unemployed and under-employed. On the other hand the industries are in need of trained man power to meet their growing demand. They could not find out skilled work force. Imparting required skills to enhance the employability of the youths and build their capacities to meet the needs of the current job market are the need of the hour. With sound collaboration between grassroots organisations involved in skill building and industries that are in need of manpower we can channelise the human resource for better future.

Most of the clients of microfinance programmes, with an increased access to finance, lack skills required to increase productivity of their existing livelihood activity or to become employable in the formal or informal sector.  Their income security depends greatly on the how far they are able to acquire new skills as well as upgrade the skills that they already possess.

**A broad definition of training and skills**

Training and skills development is understood in broad terms, covering the full sequence of life stages. Basic education gives each individual a basis for the development of their potential, laying the foundation for employability.

Skill building involves designing and offering training programmes that are need based, tailor-made, non-formal, flexible and accessible to the trainees for employment, self employment and entrepreneurship development.

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Lifelong learning maintains individuals' skills and competencies as work, technology and skill requirements change.

### Informal sector

The ILO World Employment Report (ILO 1998, p.167) characterises the informal sector thus: "Informal units comprise small enterprises with hired workers, household enterprises using mostly family labour, and the self-employed. Production processes involve relatively high levels of working capital as against fixed capital, which in turn reflects the relatively low level of technology and skills involved." Typically, three categories are distinguished in the informal sector (ibid. p. 168)

1. The small or micro-enterprise sub-sector is considered the economically stronger and more dynamic element. Typically regarded as an extension of the formal sector, it is held that a significant part of it is usually connected with the formal sector through various types of sub-contracting arrangements. A majority of such enterprises, however, have an independent character and cater to markets at the lower end of the economic scale.
2. The household-based sub-sector, where most of the activities are carried out by members of the family (largely unpaid female labour). This sub-sector extends to many different markets, activities, seasons and locations. Most households cannot break out of low incomes and poverty but some households catering to strong markets may evolve into more specialised enterprises.
3. The independent service sector, comprising domestic helpers, street- vendors, cleaners, street barbers, shoe-shiners and so on, as well as those referred to as casual labour. Female labour is highly represented in many of these occupations. In terms of size, they constitute the bulk of the informal sector. The occupation is often seasonal, changing, though the change is normally within the boundaries of the sub-sector itself. The skills required by these occupations are the lowest in the informal skill hierarchy.

### Skill Development Needs of Informal Sector

People who work in the informal sector mostly have limited access to formal education; profiles in terms of the years spent in education suggest quite low levels of training (Fluitman 1989; Lautier 2000). For instance, a recent survey of informal sector employment in Mali reveals that 76 percent of informal sector workers, that is 900,000 people, did not receive any education at all (Lautier, 2000). The West African Economic and Monetary Union states that this figure reflects the situation in other countries in the Western parts of Africa (see Gomez, 2000). Lubell's and Zarour's study (1990) shows that only 21 percent of the apprentices in Dakar had attended primary school. World Bank statistics (1995) for the informal sector in Ghana indicate that 36 percent of the informal sector workers in Ghana had completed the 10th grade and 10 per cent had some tertiary education. In Tanzania, according to a National Informal Sector Survey of 1991, 80 per cent of the informal sector workers are unskilled, 10 per cent are trained on the job and only 5 per cent are skilled (Kent and Mushi, 1995). In Kenya, a total of 85 per cent of all informal sector operators have not received any training at all and the situation might be even worse in the rural areas and amongst women. The situation in Uganda is similar; national micro and small enterprise surveys show that the majority of all workers in the micro and small enterprises are without skills (Haan, 2002).

Nonetheless many of the informal sector workers do manage to acquire most of the basic skills and competencies that are necessary to carry out their activities (Overwien 1997). In some North and West African countries, informal sector workers have more years of training behind them than those in formal sector employment, given the time spent in getting trained informally. There is also a trend in some countries for increasing numbers of recent graduates going straight to the informal sector, as formal sector employment opportunities are so limited. In Senegal, for instance, the State provides some financial incentives for informal sector workers that attract recent graduates (Lautier, 2000).

King and Abuodha (1995) also observe in their Kenyan study on the educational levels of micro-entrepreneurs in the informal sector, the occurrence of a small number of highly educated persons, a new phenomenon in the informal sector. They also note that the educational levels of informal sector workers in Kenya have risen considerably during the past two decades. They see this as a trend that will continue because skilled workers who would normally work in the formal sector are looking for work in the informal sector. This is due to weakening employment prospects in the formal sector: the lack of jobs, falling real wages as well as poor career development and advancement prospects. Informal sector activities are also more accepted, encouraged and have gained more publicity than before. In fact, some informal economy prospects may even attract successful and well-educated people away from stable jobs in the formal sector. Most informal sector workers who possess skills have acquired them through non-formal training or traditional education/ informal training outside the state schemes of formal education.

Often these are the "better off" workers, because poorer candidates simply cannot afford the training or the time it takes. Informal training and learning-by-doing often play the most significant role in providing workers of the informal sector with skills (Overwien, 1997). In Latin America, informal sector workers acquire most of their competencies through practical, informal work. Formal and non-formal education also plays a part, with varying significance depending on the region. Non-formal and formal education does not often reach the same level of significance as learning-by-doing (Overwien 1997). However, King's and Abuodha's study (1995) of 100 Kenyan micro-entrepreneurs in the informal sector shows that those who receive both formal and informal training are better off. King and Abuodha conclude that a combination of informal and formal sector training is the most effective as a formal sector exposure improves the entrepreneurial and technical capabilities of the entrepreneurs.

### Skill building for unorganised sector - Indian scenario

According to a study commissioned by the National Skill Development Corporation (NSDC), about 51 percent of the informal sector workers are engaged in agriculture. About 20 percent and 29 percent are engaged in industry and services sectors. In the manufacturing and services sector, about 60 to 70 percent of the workforce is self-employed and about 30 to 40 million works in establishments. A large portion of this workforce (employment other than self-employment) finds work through informal means such as word of mouth references, contractors, etc. This is especially applicable to agricultural labourers, and workers engaged in contractual employment in sectors mentioned in the earlier sections.

Accordingly, the 'staffing industry' as such is largely informal in nature and is unorganised. It is estimated that the organised staffing industry, primarily 'temping' (in which companies take staff/workers on their rolls and deploy them in organisations in need of temporary manpower) is about 0.5% to 1% of the total informal workforce. Staffing in which organised companies are engaged for staffing services

Much of the temporary/contractual staffing in unorganised (about 99 percent). The temping industry in India is worth about Rs. 4,000 crore and employs about 10 lakhs persons. It is expected that the temp staffing industry could grow annually at anywhere between 80 percent and 100 percent in the near future.

Interactions with various companies reveal that a significant portion of the blue-collar workforce is being sourced from states such as Bihar, Jharkhand, Orissa, Uttar Pradesh, etc. A large portion of white-collar workforce is being sourced from states native to the place of work (across the country) and also a certain portion from the north-eastern states.

### Skill-building for Livelihoods

Building knowledge and skills for the masses in this sector is one of the ways of promoting poverty alleviation. In recent years, several governments and non-governmental education and training providers have taken steps to develop and deliver training for decent work in the informal economy.

### Conceptual framework for Skill-building

Essentially, skill-building in the informal sector needs to be seen as an enabling tool, where the components of decent work are integrated. The enabling environment, which includes the right to economic and social justice, as well as the right to livelihoods, can best be created through forming community organisations. The promoters should facilitate skills-building, not only in production / service, but also enable them acquire social and negotiating skills. The women members of SHGs need to know all about the opportunities and possibilities that are available to them, including knowledge about sources of cheap credit or the labour laws applicable to them. Similarly, for a street vendor, creation of the necessary economic space and the skills to negotiate are highly relevant.

Such skills-building processes for empowerment need to be owned by the community, and, over time, the role of the external agent should become progressively marginal. Life skills, education, flexibility of the training and the decent work components all need to add up to one objective: meeting basic needs and enhancing the self-esteem and self-confidence of the workers.

Figure: Conceptual framework for Skill-Building


There is a three-way interaction between skill building, people's organisations and an enabling environment for the poor to be able to get out of poverty, in a particular development environment and market context. In this respect poverty alleviation might seem to be a simple matter of providing training in income augmenting activities to the poorer workers of the informal sector. But this would fail to recognize that the larger numbers of the poor, unemployed members of the informal sector do not often have the requisite basic skills or education to receive such training. On the other hand, if one accepts that development is a matter of right for the poor, and not just a concession that comes as the end-result of a "trickle-down" process, then the creation of an enabling environment in a rights framework is needed. NGOs can play a very important role in the creation of this enabling environment, because skill building does not stop with the techniques of production, services or trade. Rather, it should be embedded with the built up social capital (community organisations) with a solidarity and identity of the groups and their networks.

The various skill-building techniques used are not class or gender neutral; hence they have to be adapted so the poor can use them. Local organisations are needed to transmit these techniques. But incentives of the tangible benefits derived from such techniques are necessary to build viable and sustainable local organisations. The third factor, the enabling environment, is critical for the other two factors to perform. Note that the techniques here refer not only to the hard-core technologies of production and so on, but also the human skills, values and so on as well as the basic knowledge required to survive in an increasingly competitive world.

The overall purpose of training is to create that enabling environment, in such ways that the community and hence the individuals get empowered and can exercise their rights, including the right to decent work. Gender and other forms of social equity (caste, ethnicity) is a part of this.

The success of the training/skill-building process depends on the best mix of these factors. Indeed, training and skill-building have to be seen as a process, more so if the magnitude of the numbers involved is high. Also, the basic approach to processes and deriving from that, institutions, knowledge systems and styles of functioning of the enabler, the external agent or the training provider has to be very different if the intervention is to be sustainable. This is the enveloping function or approach to the three-way link between training for empowerment, people's organisations and the market and development environment to promote successful income augmenting activities for the poor.

**Skill-building: Some Propositions**

Skill-building involves expansion of access to employment-related training so that youth, persons with disabilities and other vulnerable groups are better able to acquire skills and secure productive employment while at the same time contributing to poverty reduction. Given the complexities and heterogeneity of the informal sector, there is a wide variability in the skill-building needs of the informal sector, which need to be placed in context before formulating appropriate strategies. The Skill building interventions need to focus on the following aspects

1. **Redefine skill-building as an intervention for empowering the poor** and not just for employment or a vocation. This is one way of addressing the problems of the unorganised and most vulnerable workers. There is a need to build up a more realistic picture of the informal sector and diversity in it. Formulation of methods and skill-building approaches should go beyond narrow definitions of technical training and handled more holistically than at present.
2. **Creating an enabling environment:** Empowerment necessitates creating an enabling environment, which is a big challenge in itself. This has many facets, but begins with building up the self-image and confidence of the people. Also, training for empowerment, building technical and social skills to enhance productivity cannot be a one-time intervention. There is a need for continuing education / training.
3. **Pedagogy of training for empowerment:** Creating an enabling environment for empowerment depends on the attitude and capacity of the trainers, who will have to play a role of a facilitator to enable the community to learn on its own and from each other.

Highly skilled resource persons, who constantly upgrade their own skills, are required, and they have to be accountable to the community. The pedagogy of this training process stresses co-learning and sharing with peers, which brings about crucial linkages and contacts with markets and the supply chain.

4. **Going beyond training:** The upgrading of skills in response to the emerging needs is equally important. Creating the necessary opportunities and spaces, enabling the workers to develop their own models of social security and support, have to be a part of the capacity building process.
5. **The role of the promoters:** The promoter has a critical role to play in the process of capacity building. The success of the intervention crucially depends on their perception on both the problem and the solution, and what is required in a particular context. This in itself has to be based on a thorough understanding and respect of the local culture and their belief systems.
6. **The intervention package:** The intervention package has to be worked out within a rights framework, including gender and child rights, where the community/people's organisations are of paramount importance. They are the implementers, monitors and evaluators of the skill-building packages. The human resource building aspects, especially basic human skills are of critical importance.
7. **The non-negotiables:** While the contents of the skill-building packages will need to be worked out according to the local contexts, the non-negotiables of interventions should be in relation to the universal requirement for a decent work such as
   - Income and social security to achieve quality of life
   - Freedom of choice to opt for a work
   - Equity and equality in treatment at work to offset gender, caste and religious imbalance
   - Basic minimum protection for health and dignity
   - Respecting childhood by avoiding child labour
8. **Training for employment:** For those with some education the orientation of training has to be that for empowerment. This means that along with technical/vocational skills (which need to be updated continuously) other important capacities have to be built up. The first of these relate to working in groups and teams, and building up ways of accessing information about the latest trends in the market, the demand for particular skills contribute to the empowerment of the workers.
9. **Collaboration for reaching the scale:** Any skill-building intervention could be sustainable only when it is grounded in collaboration with local industries/market. Collaboration would provide continuity for the skill-building programme, as they act as a world of practice. This would provide feedback to refine the intervention strategy as well.

10. **Training PLUS:** Value oriented education, discipline and character building are the major social benefits for an all round development of the learners. The objective of this approach is to make an individual not only capable of engaging in productive economic activity but also responsible citizen and a successful human being. It includes personality development, communication and negotiation skills, interpersonal skills, safety, positive work culture, work ethics, self-development, self-confidence, stress and time management, conflict and crisis management, and goal setting.

Finally, for all the segments of the informal sector, training in marketing and establishing linkages is a must, because ultimately that is what determines the success of the effort. The Government has the greatest role to play in promoting these concerns. This means it has to prioritise capacity building in the informal sector, and play the role of the prime enabler. The actualisation of decent work too can start through the enabling functions of the external agencies, so that the workers concerned get truly empowered to exercise choices.

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# The Promise of Microfinance

## 1. BEYOND FINANCIAL ASSISTANCE: INTRODUCTION TO THE MILLENNIUM DEVELOPMENT GOALS AND MICROFINANCE

### 1.1. The Millennium Declaration and the Millennium Development Goals

At the United Nations Millennium Summit in September 2000, 189 heads of state adopted the Millennium Declaration, which outlines the Millennium Development Goals (MDGs) as the commitment pledged by governments of sovereign states to achieve 18 development targets and 48 indicators by 2015.

The MDGs consist of eight specific goals to eradicate extreme poverty and hunger, ensure all boys and girls complete primary education, promote gender equality, improve the health of mothers and children, reverse the spread of HIV/AIDS, protect the environment, and create a global partnership for development. The MDGs are benchmarks for progress towards the overall goal of the Millennium Declaration to eradicate human poverty and fight inequality.

The international commitment to achieve the MDGs was reaffirmed by all Member States of the United Nations at Monterrey, Mexico in 2005. Achieving the MDGs requires strong political will from national leaders. Simultaneously, citizen participation is also a prerequisite for developing and developed countries by holding their governments to account to fulfil their pledges. In line with this international mandate, the United Nations Millennium Campaign Asia-Pacific works throughout the region with civil society organizations, parliamentarians, local authorities, youth, media and the private sector to support citizens in their efforts to hold governments accountable for the achievement of the MDGs.

### 1.2. Role of Microfinance Programmes

Globally, microfinance has been recognized as a powerful instrument to address poverty. Perhaps, no other development instrument has generated so much enthusiasm and promise in the recent past in impacting the lives of the poor. Through innovation, microfinance provides microsavings, microcredit, microinsurance, payment and remittance facilities for the poor and disadvantaged population. This type of financial support helps expand their choices and mitigates potential risks of poverty and social exclusion. In South Asia, India and Bangladesh demonstrated successful microfinance models that have reached millions of poor people over the past three decades. Beyond the instrument of finance, evidence is growing as to the means by which microfinance is helping to organize the poor to intervene in other development issues. Beyond the direct link with poverty reduction, the indirect link to addressing the issues of health, education, gender, and environment has been demonstrated in many contexts around the world.

The International Network of Alternative Financial Institutions (INAFI), a global network of microfinance practitioners, has the shared purpose of addressing poverty through microfinance. Since its establishment in 1995, INAFI has continued to expand its network across three continents: Asia, Africa and Latin America. Currently, INAFI has more than 300 member institutions that serve about 20 million people around the world. INAFI aims to enhance the capacity of member organizations in areas related to microfinance services, including the design of microfinance programmes and management, poverty reduction programmes and policy advocacy for pro-poor policies. Moreover, INAFI focuses on increasing access to microfinance for the poor and disadvantaged population, appropriate pricing, demand-driven products and enabling regulatory framework. In addition, it conducts research studies related to impact of microfinance on people's livelihood.

INAFI envisions a world in which the poorest of the poor are able to attain a life of dignity through basic living standards including food security, health, education and a decent livelihood. INAFI visualizes a world where the poor have the capacity to direct their own development path by enhancing their skills and opportunities through access to financial services.

### 1.3. Poverty Reduction as a key Element of the MDG Framework and Microfinance Programmes

More than a decade of deepening engagement with microfinance programmes throughout the world has brought home the message that microfinance goes beyond finance and compels attention and action from a larger development perspective. This enabling alternative paradigm seeks the engagement of microfinance programmes beyond credit schemes as a judicious blend of finance and development for addressing the many dimensions of poverty. This unique framework in which microfinance drives specific development outcomes creates a remarkable opportunity for the achievement of the MDGs related to education, health and the environment. The pursuit and success of such an alternative framework hinges on the large swathe of social capital being built through microfinance programmes.

In keeping with this commitment to an integrated development approach, INAFI sees a natural interconnection between microfinance and the MDGs. The work of INAFI members coincides firmly with realising the MDGs. The goals, indeed, are a part of the agenda of INAFI members in the holistic development perspective.

The INAFI network and its members have supported the implementation of this paradigm. In March 2007, INAFI launched a campaign to address MDGs through microfinance by organizing a global conference in Bangkok, Thailand that brought together its members in Asia, Africa and Latin America to share their experiences in working with microfinance to achieve the MDGs. The conference provided a framework for capacity building through transfer of knowledge and experiences. Furthermore, the participants reaffirmed their commitment to improve the linkages between microfinance and the achievement of the MDGs.

## 2. MICROFINANCE AS A PRACTICAL TOOL FOR POVERTY ALLEVIATION AND THE ACHIEVEMENT OF MDGs

### 2.1. Direct and Indirect linkages between Microfinance & MDGs

Microfinance brings together communities of the unorganized poor, building their social capital and networks. Building and sustaining social capital requires faith and affirmative action within the alternative paradigm of microfinance, whereby building the capacity of communities to direct their economic and social development is given primary importance and focus. This social capital then sets the stage for other interventions in primary education and health including child mortality, maternal health, HIV/AIDS, malaria and other communicable diseases. Promoting awareness, literacy and leadership among women from poor communities, microfinance paves the way for the empowerment of women, thereby combating gender inequality (see Table 1).

**Table 1: MDGs and Microfinance**

| MDGs | Microfinance |
|---|---|
| Goal 1: Eradicate extreme hunger and poverty | Access to alternative microfinance institutions:<br>✍ Diversifies the livelihood opportunities of poor people making them more resilient to adverse negative shocks<br>✍ Allows the poor to plan for unanticipated and future expenses<br>✍ Enhances equitable distribution of national economic growth<br>✍ Provides an alternative mechanism for poverty reduction |
| Goal 2: Achieve universal primary education | Microfinance can lead to an increase in family income and therefore enhance opportunities for children to participate in full-time education:<br>✍ Increases household budget to cover out-of-pocket school fees such as books, uniforms and transportation<br>✍ Reduces the economic need to keep children out of school and in income-generating activities<br>✍ Decreases the likelihood that enrolled children will drop out of school |

| MDGs | Microfinance |
|---|---|
| Goal 3: Promote gender equality | Enhancing of women's access, control and ownership of resources:<br>✍ Increases women's participation in income-generating activities and decision-making at the household and community levels<br>✍ Strengthens the social and political leadership and livelihood opportunities of women |
| Health-related goals<br>Goals 4, 5, and 6: Reduce child mortality, improve maternal health and combat HIV/AIDS, malaria and other diseases | Reducing household income constraints can enable the marginalized and disadvantaged population to address other health issues exacerbated by poverty:<br>✍ Provides financial access to education, prevention and treatment measures for HIV/AIDS, malaria and other infectious diseases<br>✍ Enhances child and maternal health by providing access to health care services and resources<br>✍ Provides access to health care insurance and protection & improves availability of potable water |
| Goal 7: Ensure environmental sustainability | Microfinance can help to improve environmental sustainability when it:<br>✍ Includes education in rural resource management which can enhance the sustainability of income-generating activities and natural resources.<br>✍ Provides access to alternative agricultural inputs which are environmentally friendly. |
| Goal 8: Global partnership | Alternative microfinance institutions provide a new channel for global collaboration for poverty reduction. |

## 2.2. Microfinance and Its Positive Impact on the MDGs

If the global campaign against poverty and hunger is to be successful, microfinance must be at the centre of the campaign. However, the global MDG agenda should adopt the following universal principle of microfinance:

> The poor and the poorest have a right to be serviced affordably, appropriately and accessibly.

Microfinance is neither a charity nor solely a commercial enterprise but rather a business endeavour with compassion and sustainability. Microfinance programmes ensure sustainable access to financial services at affordable prices and appropriate timing. This principle provides a framework for sustainable development and livelihood with the opportunities to improve the standard of living and quality of life for the poor and marginalised population. These opportunities have positive implications for other development issues, such as increasing access to basic health services and education. Furthermore, microfinance must aim at enhancing women's access, control and ownership of resources and therefore promotes empowerment of women.

## 3. IMPLEMENTATION OF MDGs AND MICROFINANCE PROGRAMMES: GOOD PRACTICE CASE STUDIES

Microfinance interventions across the world have had a direct impact on poverty alleviation, fully demonstrated by the many microfinance practitioners and institutions. The effects of microfinance in combating poverty can be seen through the determined efforts of BRAC in Bangladesh, the Self Help Group (SHG) Linkage Programmes of the Development of Humane Action (DHAN) Foundation and MYRADA in India, K-REP in Kenya and FCPB in Burkina Faso. Generating numerous livelihood opportunities and building entrepreneurial capacity among the poor, microfinance has enabled countless economic achievements through significant reduction in poverty among the most deprived and marginalized communities. Enhancing the income of the poor provides the essential necessities to prevent hunger and malnutrition.

**Case Study A: Microfinance and Health Programme**

The microfinance programme of DHAN Foundation, known as Kalanjiam Community Banking Programme, provides access to savings, credit and insurance services for more than four millions of poor families in eight states of India.

DHAN's insurance initiative, especially the health insurance programmes address the issues of reproductive health for women and child health programmes, which include health education, preventive measures and affordable healthcare system. The health programmes of DHAN Foundation currently reach more than 100,000 families in the province of Tamilnadu with a clear focus on reducing maternal and child mortality, addressing nutrition problems, anemia for the adolescent girls and women as well as behavioral changes and intervention programme to raise awareness on hygiene, nutrition and sanitation. The health programmes for women and children are connected to clients of microfinance programmes and provide increased access to healthcare for the poor.

**Case Study B: Microfinance and Education Programme**

BRAC began its Non-Formal Primary Education Programme in 1985 with 22 one-room schools. More than 34,000 schools operate under BRAC Education Programme (BEP). These schools provide basic education for approximately 11% of the total primary school children in Bangladesh. BRAC aims to reduce the number of children out of school. It gives learning opportunity for children that do not enroll in the government programme. BEP designed the school curriculum that offers education and relevant skill training for students. Moreover BEP has been successful in promoting education for girls in remote rural areas. In 2002 BRAC opened first international office in Kabul and its current running more than 90 schools for adolescent girls in rural Afghanistan.

Source: BRAC Bangladesh available at http://www.brac.net/education.htm

## 4. COMMON STRATEGIES TO ACHIEVE MDGs AND MICROFINANCE PROGRAMMES: THE WAY FORWARD

Globally, the UN Millennium Campaign and INAFI see a remarkable opportunity to capitalize on the economic and social potential of mainstreaming MDGs into microfinance framework. The joint campaign seeks to promote global partnerships with various development actors - governments, civil societies, donors, and philanthropies. The campaign will focus on enabling access to the resources of microfinance to the most marginalized populations. Civil societies should advocate and campaign at the grassroots level to sensitize local governments and orient them through SMART tracking of MDG achievements (Specific, Measurable, Achievable, Realistic and Timely indicators). INAFI and UN Millennium Campaign shall launch a three-pronged action plan to integrate microfinance and MDGs:

- Undertake and publish an annual global report on the State of Microfinance and MDGs
- Prepare regional reports on microfinance and MDGs for Asia and Africa
- Release selected annual country reports to provide focused attention on the core country contexts and their progress towards MDGs.
- Develop a tool kit for mainstreaming MDGs into microfinance.

The global and regional reports will set the stage for an "Alternate Summit", the meeting that goes beyond conventional discussion of microfinance and its service delivery, to define more concrete links between microfinance and the achievement of MDGs. The Alternate Summit aims to bring together key stakeholders on microfinance and MDGs and to seek their commitment and action towards achieving the MDGs by 2015. The global action will include mainstreaming MDGs into the microfinance agenda at various levels, including the local, provincial and country levels.

## Conclusion

The UN Millennium Campaign and INAFI share a mission and value to work towards achieving and exceeding the MDGs. Through the microfinance programme and campaigning around them, we aim to help provide greater opportunities for the poor and marginalised communities to improve their quality of life. Simultaneously, the joint Campaign will continue to advocate for pro-poor policies and strive to strengthen people's capacity to define their rights to basic services. Both organisations have strong synergy to enhance greater participation and commitment of governments, civil society, the private sector as well as other stakeholders to reorient and promote microfinance programmes and initiatives towards the sustainable achievement of MDGs by 2015.

# Regulatory framework for community based microfinance programmes

*K.Sheshadri **

## BACKGROUND

### Microfinance Sector

Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counseling, etc.

The Malegam Committee set up by the Reserve Bank of India postulates that the credit issued to the clients of the microfinance programmes are aimed at

- Addressing the concerns of poverty alleviation by enabling the poor to work their way out of poverty.
- Providing credit to that section of society that is unable to obtain credit at reasonable rates from traditional sources.
- Enabling women's empowerment by routing credit directly to women, thereby enhancing their status within their families, the community and society at large.
- Creating easy access to credit for the poor as it is more important that cheaper credit which might involve lengthy bureaucratic procedures and delays.

The poor are often not in a position to offer collateral to secure the credit. Given the imperfect market in which the sector operates and the small size of individual loans, high transaction costs are unavoidable. However, when communities set up their own institutions, such as SHG federations and co-operatives the transaction costs are lower. However, transaction costs, can be reduced through economies of scale. However, increases in scale cannot be achieved, both for individual operations and for the sector as a whole in the absence of cost recovery and profit incentive.

The Committee classified the players in the Microfinance sector into three main groups

1. The SHG-Bank linkage Model accounting for about 58% of the outstanding loan portfolio
2. Non-Banking Finance Companies accounting for about 34% of the outstanding loan portfolio

* Chartered Accountants, Bangalore

3. Others including trusts, societies, etc, accounting for the balance 8% of the outstanding loan portfolio. Primary Agricultural Co-operative Societies numbering 95,663, covering every village in the country, with a combined membership of over 13 crores and loans outstanding of over Rs.64, 044 crores as on 31.03.09 have a much longer history and are under a different regulatory framework. Thrift and credit co-operatives are scattered across the country and there is no centralized information available about them.

The SHG-Bank Linkage Model was pioneered by NABARD in 1992. Under this model, women in a village are encouraged to form a Self help Group (SHG) and members of the Group regularly contribute small savings to the Group. These savings which form an ever growing nucleus are lent by the group to members, and are later supplemented by loans provided by banks for income-generating activities and other purposes for sustainable livelihood promotion. The Group has weekly/monthly meetings at which new savings come in, and recoveries are made from members towards their loans from the SHGs, their federations, and banks. NABARD provides grants, training and capacity building assistance to Self Help Promoting Institutions (SHPI), which in turn act as facilitators/ intermediaries for the formation and credit linkage of the SHGs.

Under the NBFC model, NBFCs encourage villagers to form Joint Liability Groups (JLG) and give loans to the individual members of the JLG. The individual loans are jointly and severally guaranteed by the other members of the Group. Many of the NBFCs operating this model started off as non-profit entities providing micro-credit and other services to the poor. However, as they found themselves unable to raise adequate resources for a rapid growth of the activity, they converted themselves into for-profit NBFCs. Others entered the field directly as for-profit NBFCs seeing this as a viable business proposition. Significant amounts of private equity funds have consequently been attracted to this sector.

**Dichotomy of approach in microfinance**

More than a two-decade of growth of microfinance sector in India has brought out two distinct streams of microfinance models. Community owned and managed, institution building model of microfinance always stand superior as it goes beyond the narrow 'financial delivery' approach often followed as part of many microcredit programmes and microfinance institutions across the globe.

Microfinance is seen as an effective tool and a powerful instrument to organise the unorganised and build their nested institutions through enabling the poor women. The primacy is on building the capacities of the poor and enabling them to manage the 'financial services' and build strong, sustainable people's organisations to address their own development and growth. This approach builds ownership of members with substantial members savings, own funds and involvement. These peoples' institutions are built on the principles of self help and mutuality with enabling mode to address poverty. It basically works on demand side, while micro credit practitioners elsewhere working on supply side with delivery approach. The guiding principles of these distinct approaches are quite different and are presented below:

| Self-reliance approach | Delivery approach |
|---|---|
| Member owned and controlled | Externally owned and controlled |
| Savings led | Credit led |
| Builds internal capacity | Based on external capacity |
| Decentralised | Centralised |
| Poverty focus | Finance focus |
| Cost effective | Relatively high cost |
| Flexible | Not so flexible |
| Complements local banking institution | Substitute local banking institution |

Microfinance with enabling approach provides space for people to practice democracy at grassroots while micro-credit with delivery approach reinforces dependence perpetually.

The emphasis is on developing suitable institutions and financial services controlled by the users. For centuries the poor women are socially disadvantaged, have remained alienated from the mainstream of the society and existing financial institutions have been contributing to this process. To reverse this process, the members who are not serviced by these institutions need to be organised. Nested Institutions of women provides a mechanism to organise poor women and initiate a process of developing and managing of these institutions by them. Finally providing financial services should be seen as an instrument to address the overall development of women. Sustainability can be achieved only when poor are able to manage their problems through self reliance and mutual cooperation.

**Microfinance or Development Finance?**

Overemphasis on commercialization and market driven microfinance orientation has resulted in drifting away from the purpose of social development. Many NGOs otherwise involved in social development became mere intermediaries of managing money and started focusing on financial sustainability of their operations than the larger development goals. Very few organisations have demonstrated that the 'development finance' includes savings, credit and insurance services and all these services are highly interconnected and need to be offered together to provide synergic effect to address poverty.

These services need to be seen as instruments to address development hence the interrelationship between each of the product and the specific development issue is important. For e.g. savings and credit products for marriage, education, health, de-addiction, social obligation etc. need to be promoted. It has also demonstrated that in order to address the 'complexity of poverty' microfinance intervention need to be dovetailed with other social developmental programmes like drinking water, sanitation, health, education, linking with Panchayats and banks. But such a process would demand for mobilisation of poor and building their institutions. In order to sustain the microfinance intervention and address poverty through enhancing income the business development support services, which include skill building, providing market linkages and enabling environment for promoting livelihoods is also found to be important.

**Regulation of microfinance players**

As discussed earlier, there are three broad categories of institutions exist in the Microfinance sector such as

- self help groups (SHGs) linked to banks
- commercial non-bank financial companies (NBFC)
- non-profit organisations (NPOs)

NBFCs are loan companies governed by the regulations laid down by the Reserve Bank of India (RBI) under chapters III B (sections 45 H to 45 QB), III C (sections 45 R to 45 T) and V (sections 58 B to 58 G) of the RBI Act.

The form of organisation of NPOs are trusts (registered under the Indian Registration Act and in some states under the state level laws on trusts), societies formed under the central/ state societies registration acts (societies) and companies licensed under section 25 of the Companies Act (section 25 companies). NPOs generally enjoy exemption under sections 11 to 13 of the Income Tax Act. They receive grants from donors. In some cases micro finance may be only one of the activities of the NPO.

NPOs are governed additionally by the Income Tax Act (ITA), the Foreign Contribution (Regulation) Act, 2010 (FCRA) and the law on service tax.

## I. SYNOPSIS OF THE PRESENT LEGAL POSITION/PROVISIONS, CONSEQUENTIAL PROBLEMS AND SUGGESTED CHANGES.

### 1. GENERAL

| Existing position/provisions | Consequential problems | Suggested changes |
|---|---|---|
| 1.1 The terms micro finance, self help groups and microfinance institution are not defined in any law. | MFIs are equated with money lenders by revenue law enforcing authorities inter alia and no distinction is drawn between commercial NBFCs and NPO MFIs. | Adopt a uniform definition of the terms in all laws to enable NPO-MFIs and SHGs fulfilling specified criteria and falling within the definition to be eligible for exemptions/benefits. |
| 1.2 Many NPO-MFIs have converted into or transferred their microfinance operations to commercial NBFCs. One such NPO-MFI was denied registration under section 12 AA of the Income Tax Act among other reasons because of its forthcoming conversion proposal. This was upheld by the ITAT. | No authority examines such conversions closely resulting in the poor beneficiaries being eliminated from an equity stake in the commercial NBFCs. In this process donor grants get transformed into equity owned by the promoters. Violation of section 13 of the Income Tax Act is also noted. | Any takeover/conversion of MFI operations of an NPO should be subject to specific approvals of the RBI and the Income Tax Department. This will prevent dilution of beneficiary rights and conversion of grants into promoters' equity. |

### 2. STATE LEVEL MONEY LENDING LAWS

| | | |
|---|---|---|
| Money lending laws do not exempt NPO-MFIs | Therefore they are liable for action if they violate the laws | Like banks, NPO-MFIs should enjoy general exemption from the provisions of money lending laws |

### 3. SERVICE TAX

| | | |
|---|---|---|
| Service tax authorities do not recognise the charitable status under the Income Tax Act or the Companies Act. Therefore NPO - MFIs are made liable to service tax on processing fees like commercial NBFCs. | Service tax increases the cost of loans. Registration and compliance are additional problems. | If an entity is treated as charitable under the Income Tax Act or is licensed under section 25 of the Companies Act service tax should not apply. Uniform definition of charity is to be applied |

| Existing position/provisions | Consequential problems | Suggested changes |
|---|---|---|
| **4. FOREIGN CONTRIBUTION (REGULATION) ACT, 2010 (FCRA)** | | |
| Under section 7 of the FCRA read with rule 24 of the Rules, transfer of foreign contributions to any person (individuals, section 25 companies, HUFs and associations) who is not registered or who does not fall under the prior permission category is not permitted without the prior approval of the government. SHGs will fall under the definition of 'association' under section 2 (1) (a). | Any contribution in kind or in cash out of foreign grants will require prior approval of the government | SHGs are beneficiaries. So are federations of SHGs. Contributions to SHGs and federations of SHGs should be treated as utilisation. Specific reporting may be sought. Prior approval is to be specifically dispensed with. |
| **5. INCOME TAX ACT (ITA)** | | |
| Charitable purpose is defined to include relief of the poor, education, medical relief, environment etc., and advancement of any other object of general public utility. Proviso to section 2(15) treats the residual limb as not being charitable in nature if it involves trade, commerce etc., subject to monetary cap on receipts. | Proviso to section 2(15) is sometimes being used to deny registration under section 12AA to NPO-MFIs. They are also subject to tax as business concerns. Litigations and tax demands arise. | The proviso targets only the residuary limb. Educational institutions and hospitals charge for their services. How can NPO-MFIs not charge the borrowers? As long as the activity is one of poverty relief, section 12 AA and exemption should apply to NPO-MFIs. The law is clear but its administration is the problem. CBDT could clarify the issue of NPO-MFIs through a circular. |
| **6. DIRECT TAXES CODE (DTC)** | | |
| The proposed DTC excludes entities established for the benefit of members from the purview of charities. | Federations of SHGs working for the members will not enjoy exemption. They could be mutual associations based on the facts of each case but the non-mutual income will be taxable. | Activities to alleviate poverty whether by NPO-MFIs or federations of SHGs should be charitable purpose. Federations of SHGs work for their members for specific reasons like peer pressure, homogeneity, geographical proximity etc. |

| Existing position/provisions | Consequential problems | Suggested changes |
|---|---|---|
| | | These are not commercial associations seeking to promote the commercial business interests of their members. The provision is to be dropped. |
| **7. COMPANIES ACT, 1956** | | |
| 7.1 Only natural and legal persons can be members in a company | SHGs cannot be members even in a micro credit company licensed under section 25. | The Company Law Board has issued a circular permitting partnership firms to be members of companies licensed under section 25 though firms are not legal entities. Section 24 (4) permits partnership firm-members in these companies. Similar benefit should be extended to SHGs also. |
| 7.2 Companies licensed under section 25 are exempt from the provisions of capital adequacy, registration etc., under the RBI Act if they conform to limits and enduse norms on the loans and also do not accept deposits. | The licence is issued by different regional directors who take divergent views | The Company Law Board could issue a circular to all the regional directors/registrars of companies to issue licences in those cases which conform to RBI's circular. |
| 7.3 The licence under section 25 prohibits any benefits in money or moneys worth to members | A micro credit company licensed under section 25 is meant to serve the poor/SHGs who may be members also | Licence condition should not contain this restriction with respect to SHGs/individuals who are members. |
| 7.4 Under proviso to section 67(3), any offer or invitation to subscribe for shares or debentures to 50 persons or more, is a public issue. Therefore a prospectus has to be issued and the procedures as applicable to public issue are to be followed. | This provision effectively inhibits beneficiary membership. Section 25 companies with many prospective beneficiary - members are affected. | Companies licensed under section 25 are to be exempt from this provision. Norms on maximum equity holding per individual/SHG and the financial strata of the shareholders could be laid down. As dividends are prohibited this will not in any case attract any commercial investor. |

| Existing position/provisions | Consequential problems | Suggested changes |
|---|---|---|
| **8. THE RESERVE BANK OF INDIA ACT (RBI)** | | |
| The Reserve Bank of India has issued a notification exempting companies licensed under section 25 and carrying on micro credit activities from the rigours of registration, capital adequacy, etc., under the RBI Act/NBFC regulations provided they adhere to limits on loans and do not accept deposits. | The notification is restrictive and purpose specific. Credit can be provided only for business enterprises (Rs.50000) and housing (Rs.125000). Consumption loans and loans for purchase of lands, livestock, repayment of existing loans, etc., are not covered. | Loans to federations of SHGs should be permitted without limit.<br><br>The purpose is not to be specified in the notification. Repayment of high cost loans will contribute as much to the welfare of the poor as running a business enterprise. |
| **9. MUTUAL ASSOCIATIONS** | | |
| 9.1 Mutual associations are not subject to any specific law or provisions of any law. Presently mutual associations can be societies or section 25 companies. SHGs and federations of SHGs are mutual associations. They are now also in micro insurance for their members. | This hampers the formation, growth and management of mutual associations. Lack of clarity on its status, taxation of non-mutual income, exemption of mutual income etc., are contentious. | A separate law governing mutual association or a separate chapter under the Companies Act like on producer companies is essential. The law/ provision should cover definition, characteristics, rights, liabilities, exemptions and governance. This is more urgently required due to the proposed DTC excluding them from the purview of NPOs. |
| 9.2 Mutual associations even of the poor will be liable to service tax | Service charges collected for services rendered to the members would be taxable increasing the cost. Compliance is a burden. | Mutual associations of the poor should be exempt. |
| 9.3 Mutual associations are subject to tax on non-mutual income. Mutual income is exempt. They enjoy exemption as charitable trusts if they are for public benefit. However there has been considerable litigation on these matters. DTC will deny them charitable status. | Lack of clarity creates problems for the assessees and the tax authorities. | Mutual associations of the poor fulfilling definite criteria should be exempt from income tax. |

## About NRLM

National Rural Livelihoods Mission (NRLM) is an initiative of the Ministry of Rural Development, Government of India to promote sustainable rural livelihoods. This Pan India Mission aims to reduce poverty through building grass root institutions of the poor, to enable the poor households to access gainful self employment and skilled employment opportunities on sustainable basis and reduce the vulnerability of the poor to natural or manmade shocks. The Mission seeks to achieve universal financial inclusion and provide infrastructure support for the livelihoods.

## About SERP

Society for Elimination of Rural Poverty (SERP) is an autonomous society of the Department of Rural Development, Government of Andhra Pradesh. SERP is implementing a World Bank funded poverty alleviation project called Indira Kranthi Patham(IKP). IKP looks at all dimensions of poverty and seeks to address all of them by organising the poor into Self Help Groups and federating them at village, mandal and district level. It is a community driven project that enables the poor to improve their livelihoods and quality of life through their own organizations. It has reached 11 million households by bringing them under 1 million self help groups making it one of the largest microfinance program. SERP focuses on promoting livelihoods and addresses health, educational and social security needs of the poor through community owned institutions. It plays a key facilitating role in promoting credit access to the poor and their institutions from the formal banking sector.

## About Inafi

Inafi (International Network of Alternative Financial Institutions) is a global network of Development Organisations involved in enabling and supporting micro finance programmes of the member organizations in Asia, Africa and Latin America. Inafi brings together micro finance NGOs/MFIs at three levels: international, regional and country level as in India, Philippines, Bangladesh, etc. in Asia context. Inafi members - over 250 organisations in three continents address poverty of client groups comprising of disadvantaged poor women and other vulnerable segments of the society through Microfinance with the collective outreach of more than 40 million clients across a globe. Inafi recognizes the critical role of micro finance interventions as part of the development strategy in eradicating root causes of poverty.

S E R P

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