Role of NGO and State actors in promoting microfinance in Southern India and critique on the outcome

Preface:

Southern India has witnessed several developmental interventions aimed at poverty reduction and other social goals through financial inclusion over the last many decades. Intervening agencies have been government agencies, multilateral and bilateral international agencies, and NGOs. While the form, ownership, and mandate of these agencies might differ, they have driven significant social change in unison. State agencies have been at the forefront of providing initial development financing framework and governance with continued participation while tertiary sector-led support model filled the gap with the latest know-how, tools, and finance. The interdependent multi-operator approach has realized developmental dreams in some pockets of South India, though homogeneity of outcome and coverage is yet to be worked on.

Evolution of Microfinance in India: Historical Perspective

The concept and framework of Microfinancing is nothing new to the world and India, though its forms, objectives, interest groups, and governance styles have been different mostly based on, to begin with, socio-political-cultural contexts and later on expanded to increasingly integrated global society. Several forms of micro-credit have been actively globally e.g. "chit funds" in India (rotating savings and credit associations (ROSCAs)), "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia for several millennias / centuries.

As per indications across various social and religious texts, it seems that unregulated moneylending started as an initial form of microfinance several millennia back in several types of lending/trading which was in kind (Barter system of exchange) and/or in cash. This arrangement was to support agriculturists and manufacturing guilds alike. Typically lending was done on a selective basis on qualitative criteria of loanee's creditworthiness (a proxy for his / her standing in the social/professional order) and agnostic to purpose i.e. for a production-linked loan etc.(Bhargava 1934; Schrader 1997:71-83).

During medieval times, most of this custom continued in various names until British India when rent-seeking was institutionalized through revenue-collecting state apparatus. As most trading and manufacturing sector enterprises either perished (where they were in competition with British interests e.g. textile industry) or obsolete due to no investments in changing technology and practices, the mainstay of revenue collection was agriculture taxes. Urban population paid 5% income taxes whereas land assessments (tax) were between one third to half of produce (Pg7, Does History Matter? The Old and the New World of Microfinance in Europe and Asia; Working paper / University of Cologne, Development Research Center, No. 2005,10). Its impact was compounded by moving the tax calculation methodology to a pre-assessment basis which meant peasants were required to pay pre-determined taxes irrespective of weather, irrigation situations. This development created a huge rent-seeking class in Indian society in the form of feudal representatives on one side and facilitated the creation of an even bigger section of borrowers/lenders cutting across social lines. This development combined with other developments e.g. new laws around private property, mortgage, and tenancy legislation, transformed and accentuated moneylending in 19thcentury India.

With the increase in money-lending opportunities, 20th century India was also adopting western banking tools and methodologies e.g. cooperative structure, capital pools, joint-stock companies, etc. Many of these constructs were on the lines of the Irish Loan Fund System and Raiffeisen's Credit cooperative model as was implemented in Rhine province / another region of Germany. Inspired by these developments in Europe, British India promulgated Co-operative Credit Societies Act in 1904 to promote self-help frameworks amongst the agrarian community and professional guilds. These initiatives were further bolstered by the 1919 Government of India act wherein provinces were empowered to enact state cooperative laws. Though it is less known how these well-meaning legislative initiatives transformed the power equations between society and state in general and the micro-financing / micro-credit operating landscape in particular.

Independent India (After 1950) witnessed numerous state-initiated campaigns and legislations formalizing implementation and governance framework for rural financing (as more than 80% of the Indian population lived in rural areas at that time) and Priority sector banking has been an important part of India's development charter. Despite charters and plans, government-facilitated financing has had its limitations which paved way for the entry of NBFCs (Nonbanking financial corporations) and NGOs (Non-Governmental Organization) in the poverty reduction financing space.

Underlying assumptions in Microfinance models in India:

The micro-finance movement in contemporary India started with, in addition to state initiatives e.g. NABARD’s Self-Help Group bank linkage program, SEWA (Self Employed Women’s Association), SHARE, and BASIX setting the development tone. Inspired by the Grameen Bank in Bangladesh and Bancosol in Bolivia, the upcoming model of micro-finance had a few underlying explicit assumptions e.g. most of the beneficiaries being women, loan-disbursal undertaken to facilitate entrepreneurial activities with refund starting within weeks of disbursal and collective loan guarantee. There were a few implicit assumptions as well e.g. micro-finance will commence and reinforce a virtuous cycle of neo-liberal market-led consumption culture. Also, It will provide a platform and position of assertion to women which they were expected to obtain with economic independence and shift of power dynamics within family and society.

Finance and women empowerment discourse has been detailed by Robinson (2001) wherein ‘Financial Systems’ approach encouraging commercial model with the minimalist approach is contrasted with ‘Poverty Lending’ approach. While the former is guided by neoliberal market principles, the latter has socialist leanings.

Role of State and NGOs in building Microfinance framework in South India (and India in general):

It will be useful to analyze the channels of microfinance, as they evolved, in South India, to understand the behaviors and roles of state agencies and NGOs. Broadly, two channels have been employed namely SHG-Bank linkage program (SBLP) and MFI (Microfinance Institution).

SBLP is the largest network of government-mandated development banks reaching out to approximately 50 million households through the help of more than 5,000 NGOs ’ intermediation. Typically, NGOs assist in coordinating and providing governance but stay out of the funding value chain. The majority of SHGs are comprised of women only.

MFI (Microfinance institution) consists of Grameen organizations (Grameen means ‘Village’) accounting for 78% memberships while NBFC represents deeper client outreach. In South India, this model has grown significantly in 2002-2009 as MFIs started transforming into commercial banking units to meet their growth aspirations. NGOs have been relatively more active in this model as it was, at the time of inception, modeled as ‘Alternate operating model’ and mostly works on tertiary sector premises. That said, big rush to monetize commercial returns from microfinancing opportunities witnessed social objectives being replaced by commercial interests. It is said it built up a supply-driven push cycle that squeezed the needy households first by flooding them with plenty of loans while they didn’t know what to do with that and then pushing them to pay up the loans. This situation climaxed with Andhra Pradesh, a South Indian state with the deepest microfinance penetration, the government clamped MFI growth with the restrictive ordinance in 2010.

Form and Operating Model of Microfinance Entities

From a construct standpoint, there are primarily two parameters of Microfinance models in India. First, approach to group formation of beneficiaries and Two, the scope of assistance e.g. whether it is strictly credit-only or credit-plus (which also includes other aspects of social services e.g. legal services). SHARE works on the lines of the Grameen Bank model whereas PRADAN (Professional Assistance for Development Action) and CYSD broadly of work through Self-Help Groups (SHG). A few others like SEWA take a cooperative format wherein ownership and participation approach changes. Also, the role and accountability of State participation will vary in ensuring governance across both the models and so its intervention. Looping back on the second parameter as discussed above, CYSD touches upon broader social issues (being the Credit Plus model).

Impact and Outcome Analysis

Economic Impact:

1. Economic impacts are broadly positive, relatively more for those who are closer to the poverty line compared to the section further away. Also, loans invested in asset creation have been more sustainable than consumption-led [Morduch and Haley 2001, Hulme and Mosley 1996]

2. Access to options of poverty alleviation improved the economic position of households as evidenced by SHARE members in Andhra Pradesh (Todd 2001)

3. Increase in adoption of agricultural new/good practices leading to increase in income amongst CYSD SHGs in Orissa [Dash and Kabeer 2004]

4. Enhanced irrigation facilities, increased ownership of livestock and reduction in reliance on moneylenders saw increased saving in PRADAN members in Jharkhand (Kabeer and Noponen)

While the overall economic impact is positive at the household level, studies do not indicate any specific improvement for women in terms of their rights or decision-making power shift individually.

Social Impact:

Under social impact, we review the outcomes from the context of health, nutrition, and education.

1. Studies of PRADAN and CYSD report improvement in food security, diet quality and access to clean water

2. Study of SHARE recorded nutritional improvements and better housing

3. SAPAP SHGs reported improved regularity of meals, child nutrition and reduced child mortality in Andhra Pradesh (Murthy et all)

4. In terms of women’s increased participation, equality, and climbing up in the social ladder, Murthy and Khandker (1999) in separate studies noted that women and girl child, in significant cases, drew positive decision-making, nutritional and educational impacts if the financing was done to the woman than to the man in the family. This outcome was broadly in sync with Bangladesh’s microfinance outcomes of Grameen Bank and BRAC on one hand and two separate studies of SHARE by Todd in 2001 and Cortijo / Kabeer in 2004.

Ethnographic changes in South India, triggered by Microfinance campaigns, have been studied by several academicians e.g. Holvoet (2005) who selected five credit programs run by state and MFI (Microfinance Institutes) to measure the effects on specific and general decision-making by women. Studied programs were the Integrated Rural Development Program (IRDP) and the Tamil Nadu Women’s Development Program (TNWDP) both of which were state programs intermediated by either NGO Myrada or Rido. Decisions covered under this study, taken by women, included loan-related aspects as well as general decisions e.g. power to make and/or influence decisions in kinship matters, etc. Findings indicated that women, who were direct beneficiaries of loans, had increased voice in the loan-related decision-making process but no or low impact on other aspects of family or social decision making.

Berglund (2007) analyzed empowerment effects on SHG participants in Andhra Pradesh in 2007. This study looked at mobility, decision making, knowledge of economic and social situations; and participation in the election. While at the individual level, SHG participants were empowered but it did not significantly increase their group empowerment. In some cases, it was found that increased financial expectations had enhanced pressure on SHG members from their families.

Poverty and Vulnerability are noted to be social and economic phenomena with entrenched historical impressions. One of the intended outcomes of Microfinance movements in Southern India has been to build resource capacity and reduce the uncertainty of resource flow to address poverty and vulnerability with the poorest of the poor and eventually address the social exclusion problem which is an offshoot of the first two.

Closing Remarks

State agencies and NGOs have been fairly active in southern India for the last several decades through the development landscape highlights the uneven spread of networks and social initiatives. Most of the initial operating models had a collaborative approach between state and NGOs but post mid-nineties, we witness a shift towards MFI led model with the role of the state mostly limited to governance. With an increased footfall of development actors, positive economic changes have been exemplified at the household level but its impact on constituents e.g. women in their daily-life negotiations is not definitively visible yet. So, as it seems, while we have been successful in creating assets and resource base for the poor, two issues remain at the heart of the debate, One – About homogenous representation of poor (marginal poor receiving financial inclusion benefits as much as poorest of the poor) and gender dynamic.

1. http://globalenvision.org/library/4/1051/ (Point 1)

2. http://www.econstor.eu/bitstream/10419/23654/1/2005-10_The_Old_and_the_New_World_in_Europe_and_Asia.pdf (Point 1)

3. http://www.isb.edu/caf/File/The-Indian-MicroFinance-Experience.pdf

4. Is Microfinance a 'Magic Bullet' for Women's Empowerment? Analysis of Findings from South Asia (NailaKabeer)

5. State of Microfinance in India (As part of the project on state of Microfinance in SAARC Countries By Frances Sinha, 2009)

6. http://www.ggdc.net/Maddison/articles/moghul_3.pdf