SPEECH

ROLE OF CREDIT IN POVERTY ALLEVIATION*

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It gives me great pleasure to be here with you all this morning. I am indeed happy that the Institute for Social and Economic Change and Lucknow University are organising this Seminar on 'Quantitative Analysis of Economic Inequality and Poverty'. The two major goals of economic policy in almost all developing economies have been reduction in inequality and rapid economic growth. Earlier on, a view was held that these two objectives are opposing concerns. However, this view has undergone a change. Reduction in inequality is now viewed as a necessary concomitant of sustained growth. In the development agenda, an important issue, therefore, relates to the promotion of economic opportunities for the poor. It is being increasingly recognised that while growth, particularly rapid growth, can bring about a reduction in poverty, a direct attack on poverty is also called for to achieve significant results. This has resulted in the creation of a number of poverty alleviation programmes in India, as elsewhere. I would like to take this opportunity given to me this morning to say a few words on the credit-related poverty alleviation programmes and their effectiveness in our country.

2. There is a diversity of opinion among experts on what constitutes poverty. Obviously, there are different ways of measuring poverty. For effective implementation of programmes relating to poverty alleviation, an acceptable quantitative index becomes necessary. By and large, the most accepted method for measuring poverty has been through the definition of a poverty line which serves as a cut-off line for separating the poor from the non- poor. Population with per capita consumption expenditure levels below the level defined by the poverty line is counted as poor. While there are other criteria for measuring poverty such as hunger criterion, food share criterion, consumption of calories criterion, much of the efforts in our country have been spent on calculating the number of poor people through an appropriate definition of a poverty line. In this methodology, defining a poverty line, therefore, is the first step in estimating poverty. The definition of the poverty line in the Indian context was attempted for the first time in 1962 by a Working Group comprising eminent economists. The Task Force on Projections on Minimum Needs and Effective Consumption Demand set up by the Planning Commission in 1979 defined the poverty line as the per capita expenditure level at which calorie norms of 2,400 in rural areas and 2,100 in urban areas were met on the basis of the all-India consumption basket for 1973-74. This was equivalent to Rs.49.09 and Rs.56.64 per capita per month for rural and urban areas respectively at 1973-74 prices.

3. The Planning Commission has been estimating the proportion of poor separately for rural and urban India at national and State levels and these estimates have been released from the year 1972- 73 onwards using the full survey data on household consumption expenditure collected by the National Sample Survey Organisation at an interval of five years. The estimates are available for the years 1972-73, 1977-78, 1983-84 and 1987-88. As mentioned before, population with per capita consumption expenditure levels below the level defined by the poverty line are counted as poor and this is estimated based on the data on the size of distribution of the population by expenditure alone obtained from the household consumption survey conducted under various National Sample Survey rounds. The ratio of the population below the poverty line to

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the total population is the poverty ratio, also known sometime as head count ratio. Since the poverty line was defined in terms of 1973-74 expenditure levels, these were updated over time to take care of the changes in the price levels. In order to arrive at the estimates of the number of poor, Planning Commission has been making adjustment in the National Sample Survey data on distribution of households by consumption expenditure levels. Such an adjustment has been felt to be necessary because the aggregate private household consumption expenditure as estimated from the NSS data is different from the aggregate private consumption expenditure estimated from the National Accounts Statistics. Several questions have been raised over time on the methodology followed in the official estimates of poverty at national and State levels. The adoption of uniform calorie norms and fixed consumption basket, base year price differential and uniformity of deflators across the States as also the practice of adjusting the National Sample Survey distribution have been widely contested. It is to take care of these criticism, an Expert Group was set up in 1989-90 to consider methodology and computational aspects of estimation of proportion of number of poor in India. I happened to be a Member of the Committee and I shall presently come to the conclusions reached by this Committee on the estimation of the number of poor in India.

4. The limitations of the poverty line approach have, however, to be noted. The poverty line approach is related to absolute poverty and the notion of absolute poverty is regarded inadequate because relative poverty is also an important aspect of poverty. Some, therefore, feel that the concepts of inequalities and poverty, although distinct, must be viewed together. The poverty line approach also freezes the notion of poverty. More importantly, the head count ratio based on poverty does not capture the severity of poverty in terms of poverty deficit. In effect, the distribution of consumption expenditure among the poor is ignored.

5. While recognising the limitations of the poverty line approach, the Expert Group decided to improve the methodology that had been in vogue in the official estimates. The three important improvements suggested by the Expert Group are: a) The abandonment of NSS - NAS adjustment procedure, b) Initial estimation of poverty State-wise and its aggregation for deriving all-India estimates; and c) Adoption of State specific price indices/deflators related to consumption around the poverty line.

6. The adoption of new methodology results in substantial changes in the estimates of the people below the poverty line. For 1987- 88, the revised estimates show the percentage of people below the poverty line at 39.34 per cent as against the earlier estimate of 29.9 per cent. The Expert Group has emphasised that the estimates of proportion and number of poor need to be supplemented by information on the composition of the poor population in terms of certain dominant characteristics, health status, education status and living environment in order to get a complete picture of the well-being of the population.

Role of Credit in Improving the Prospects for the Poor

7. Greater access and sustainable flow of credit is critical for the improvement of the poor. Credit has also to be prompt and adequate. The concern is almost universal regarding the urgent need to remove the constraints on credit availability to the poor. In this regard, bank credit plays a critical role in accelerating economic growth in general and alleviation of poverty in particular. It enables the poor to accumulate productive assets. More importantly it helps the recipients to make the optimal use of the assets. Availability of credit, has always been scarce in particular for the poor who have little to offer as collateral. It is for this reason concerted efforts have been made to bring about important institutional innovation for purveying credit exclusively to the weaker sections. With the enlargement of the institutional mechanism, the share of institutional rural credit has risen considerably although

the institutional sources do not yet fully cover the credit needs.

8. In order to improve the availability of credit to the poor, a number of schemes/programmes have been designed with varying degrees of explicit or implicit interest subsidy. Some of the programmes also embodied capital subsidy. The main thrust of these programmes has been to provide financial assistance to the poor by way of capital subsidy and bank credit at subsidised interest rates so that they can improve their economic conditions. In pursuance of this, formal credit institutions have been required to ensure that a proportion of credit disbursed is channelled to the weaker sections. The most important among the programmes designed for a direct assault on poverty include: (1) The Differential Rate of Interest (DRI) scheme, (2) the Integrated Rural Development Programme (IRDP), and the Self-Employment Programme for Urban Poor (SEPUP), since merged with the Scheme of Urban Micro Enterprises (SUME). The main objective of these schemes is to assist the poor with credit so as to create income generating assets.

9. Until 1992-93, banks have assisted over 400 lakh beneficiaries under the IRDP. Out of these nearly 184 lakh beneficiaries, belonged to scheduled castes and tribes, and about 58 lakh were women. The outstanding advances of all scheduled commercial banks as at the end of March 1992, under the IRDP amounted to Rs.3,244 crore in 108 lakh accounts. Under the DRI Scheme, the outstanding advances of all public sector banks amounted to Rs.705 crore in 30 lakh accounts. These advances accounted for 0.63 per cent of the total outstanding advances which is somewhat lower than the target of one per cent laid down for the Scheme. The advances of public sector banks to weaker sections constituted about 9.28 per cent of their net bank credit, as at the end of September 1993, as against the target of 10 per cent.

10. Women beneficiaries have been given special concession under the various Government programmes and special targets have been provided for women. Thus, for example, under IRDP, 40 per cent of the beneficiaries have to be women. Besides, under IRDP, a special sub-scheme known as Development of Women and Children in Rural Areas (DWCRA) has been formulated. Under this, women forming themselves in groups are provided with special credit facilities. Reserve Bank has recently taken a decision that women of even defaulting husbands may be given credit facilities when they form themselves in groups.

11. The IRDP was formulated with the objective of increasing the family incomes of the households below the poverty line through the use of credit and subsidy by providing them income generating assets and thus enabling them to undertake economic activities which will help them to cross the poverty line on a lasting basis. This was also in recognition of the fact that structural inequalities of our society are more pronounced in the rural areas particularly in the field of income and consumption patterns of the inhabitants. Banks have played a critical role in the implementation of this anti-poverty programme. To a considerable extent, they have also contributed to the micro level planning process so that integrated development can be achieved.

12. The total investment in the IRDP which includes the credit disbursed and the subsidy amount stands at around Rs.18,000 crores upto 1992-93. The per family investment has increased from Rs.3,107 crores in 1982-83 to Rs.7,684 crores in 1991-92. The implementation of the programme has been evaluated by a number of reputed organisations. Major evaluation studies were carried out by the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), the Institute for Financial Management and Research (IFMR) and the Programme Evaluation Organisation (PEO) of the Planning Commission. It has been brought out in these studies that the programme had a positive impact on the income of the beneficiaries. The bulk of the benefits have gone to SCs and STs. An evaluation study of

IRDP in one district recently conducted by NABARD has revealed that about 83 per cent of the sample beneficiaries could register improvement in their economic status although only 34 per cent could cross the poverty line income level. The study further states that the investment in fisheries, power sprayers, dairying and horse carts were financially viable without any capital subsidy. However, there are other studies that indicate that the impact on income has not been significant.

13. These studies have not observed the several shortcomings in the implementation of the programme. In fact, while quantitative achievements of poverty alleviation programmes have been quite impressive, the qualitative achievements, have been far from satisfactory. A number of District-oriented Monitoring (DOM) Studies with pointed focus on investment under IRDP pointed out a number of weaknesses in the implementation of IRDP. The serious among the weaknesses were (i) poor quality of assets procured by the beneficiaries; (ii) inadequate financial assistance including subsidy; (iii) lack of inter-agency co-ordination in ensuring backward and forward linkages; (iv) concentration in a few activities; (v) misutilisation of loans for meeting consumption needs; and (vi) improper identification of beneficiaries and activities. Further, the recovery performance under poverty alleviation programmes was alarmingly poor. As at the end of June 1991, under IRDP, recovery as a percentage of demand of public sector banks was about 41 per cent as compared with the overall recovery of 58 per cent in the case of direct agricultural advances of public sector banks. Similar was the experience under the DRI Scheme.

14. However, while special programmes have been designed with the combination of credit and capital subsidy to help the poor, we do need to get the most out of them. The ultimate measure of success of this programme would be how fast the society can move towards helping the poor to help themselves through meaningful productive activities. New ways and innovative forms of financing need to be developed in order to help alleviate poverty. People's participation in credit delivery and recovery and the linking of formal credit institutions with the beneficiaries through intermediaries such as non-governmental organisations could be thought of as an alternative mechanism for meeting the credit needs of the poor. Obviously there is also considerable scope to improve rural credit and delivery system of commercial banks even within the existing framework. Improvement in bank efficiency with effective reduction in transaction costs of lending combined with the more positive attitude on the part of the bankers towards the poor can provide a significant change to the character of these poverty alleviation programmes.