

*Defeating Poverty: Issues and Challenges**

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Mr. Sameer Kochhar, Chairman, Skoch Group; other dignitaries on the dais and in the audience; delegates to the Summit; members of the print and electronic media; ladies and gentlemen! It is a pleasure and privilege for me to be present here today at the inaugural session of the 39th Skoch Summit on the theme of 'Defeating Poverty'. The theme of this conference is extremely relevant at the current juncture when the groundwork on linking each household to the banking sector in a mission mode under the Pradhan Mantri Jan-Dhan Yojana (PMJDY) is nearing completion. I congratulate Skoch for choosing this particular theme for its Summit.

2. The ILO Declaration of Philadelphia, 1944 states '*Poverty anywhere is a threat to prosperity everywhere.*' Poverty, therefore, has implications for global stability which has been well appreciated by the policy makers the world over. As across the globe, policy makers in India *i.e.*, Government of India and the financial sector regulators, particularly the RBI have also endeavored to ensure that poverty is tackled in all its forms and that the benefits of economic growth reaches the poor and excluded groups in the society.

3. Franklin D. Roosevelt said 'the test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.' If we were to apply this yardstick for measuring our progress, we would be considered to have failed miserably. Even after nearly sixty eight years since achieving our independence, poverty remains one of India's largest and most pressing problems. There is no gainsaying that a nation

cannot become great when the lives of millions of its citizens are benighted by poor nutrition, limited by poor learning opportunities and shriveled by gender discrimination.

What is poverty?

4. The Merriam Webster Dictionary defines poverty as 'the state of one who lacks a usual or socially acceptable amount of money or material possessions.' However, poverty is not simply characterised by a lack of adequate income. It has far reaching implications. People who suffer from poverty experience a number of deprivations and restrictions. Its manifestations include hunger and malnutrition, limited access to education and other basic services, social discrimination and exclusion, as well as the lack of participation in decision-making and in civil, social and cultural life. One important thing to note is that poverty cannot be defeated through charity. Empowering people with a means to sustaining themselves in the long term is the solution that can defeat poverty.

5. Unemployment is at the center of poverty. For the poor, labour is often the only asset that can be used to improve the lives and wellbeing. It is crucial that we empower the poor who have the potential but often lack opportunities to shape their lives.

Bidirectional cause-effect relationship between financial exclusion and Poverty

6. As I said earlier, poverty is generally associated with a low level of income. This income is primarily directed towards consumption thereby leaving very little for saving/investment. A low level of savings obviates the need for a banking account thereby creating financial exclusion and lack of investment opportunities. This creates a barrier for financial inclusion from the demand perspective. Conversely, financial exclusion can deprive people of the benefits and the incentives offered by the financial system. Poverty can, therefore, be self-fuelling from generations to generations.

* Keynote Address by Shri S. S. Mundra, Deputy Governor, Reserve Bank of India at the 39th Skoch Summit in New Delhi on March 20, 2015.

How to break this vicious circle?

7. I am not an economist. Many eminent speakers would dwell on this issue during the day. However, I wish to put forward some perspectives as I see them. Let me begin with measurement of poverty. I am not on whether those spending below ₹32 in rural areas or below ₹47 in urban areas (as defined by the Rangarajan committee) or ₹27 and ₹33 respectively as fixed by Tendulkar Panel earlier, are to be considered poor. My question is whether such income levels across countries or states (even after adjusting for purchasing power parity) are comparable without taking into account the availability, quality and cost of such basic amenities as health care, education, transport, sanitation *etc.* Would not a composite index (if one can be devised) of these two elements would be a truer indicator of real poverty level? This can be elaborated with several measurable examples but time limit does not permit to do so.

8. Extending that argument further, would it mean that there could be two ways to address the challenge of defeating poverty?

- a. State ensures availability of quality amenities I mentioned earlier to all needy citizens – question is, whether it is feasible?
- b. Empower and facilitate all citizens to earn such levels of income that they can buy these services from the open market. Issue to contemplate is whether this can be done in a short term or even in the medium term.

9. Then would it be fair to assume that a combination of above two would be a more realistic goal to pursue for quite some time to come considering the dimension of the work involved? Would it also be fair to assume that pursuing only one of the above or even both but with varying emphasis would not serve the purpose?

10. Leaving this broader issue for wider discussion, let me now turn to the various initiatives taken in past few years in respect of poverty alleviation/financial inclusion/employment generation *etc.*

Priority Sector Lending

11. Efforts are also underway to reorient the priority sector lending guidelines to serve today's growth and inclusion agenda. An Internal Working Group at the RBI has revisited the existing guidelines and suggested revisions for ensuring channeling credit to segments that get crowded out in the absence of specific targets. These include small and marginal farmers, micro enterprises and the weaker sections while broadening the scope to include other underserved categories of national priority, such as agriculture infrastructure, social infrastructure, renewable energy, exports and medium sized enterprises.

Financial Inclusion Plan

12. Let me briefly highlight what the RBI has been doing for mainstreaming the marginalised sections of the society and for ensuring an equitable growth in the country. The RBI has been relentless in its pursuit of achieving universal financial inclusion by following a structured and planned approach. As I mentioned earlier, the focus is not only on ensuring access to financial services and products but also taking efforts to address issues emanating from the demand side through Financial Literacy initiatives. Phase II of the Financial Inclusion Plan is currently under operation which seeks to connect all the 600,000 plus villages in the country to banks either through a brick and mortar branch or a BC agent by the end of the year.

PMJDY

13. To say that Government's PMJDY scheme has been a success would be a massive understatement. One must admire the vision and intent behind the program. Lot of efforts has gone into opening the bank accounts and most households have been connected to the formal financial system. The need of the hour now is to ensure that services are easily accessible to the account holders, are cost-effective and service efficient & most importantly the accounts remain active. For the account to remain active, the holders would need income and benefits to flow into them. Focus should

also be placed on inculcating savings habit among the people. Once the saving habits take root, people would look for investments. Only then this massive exercise would be meaningful.

Direct Benefit Transfer

14. In order for the new bank account holders to continue to remain engaged with the formal financial system, Government's DBT program is expected to play a big role. It would ensure that the benefits are transferred directly to the targeted population and the leakages are avoided.

Licensing of Payment and Small Finance banks

15. With the objective of furthering financial inclusion and supply of credit to small business units, small and marginal farmers, micro and small industries and other unorganised sector entities the RBI has decided to license a number of small finance banks. Also, licensing of a few payments banks is envisaged to provide payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

Promoting Entrepreneurship and Self-employment

16. Preparing the poor people for self-employment is perhaps the most lasting solution for poverty alleviation. The role of entrepreneurship as a key driver of economic growth and development and alleviating poverty and unemployment has been well researched and documented in both developed and developing countries. Entrepreneurship promotes innovation, creates competitive advantage and economic prosperity and helps create wealth and job opportunities thereby improving the standard of living of individuals, their families and communities.

Empowerment through microfinance

17. Microfinance is an influential means of empowerment for the poor and vulnerable and helps in extricating them out of their poverty and misery. It basically works on the premise that it is better to teach someone to fish rather than simply giving them a fish. It gives the poor the necessary tools, skills, and

resources to help them engage in productive activities and grow their way out of poverty.

SHG Bank linkage model

18. SHG (Self Help Group) bank linkage programme piloted by NABARD in 1992 with 500 SHGs of rural poor has now transformed into the world's largest microfinance initiative with over 7.4 million SHGs representing 97 million rural households becoming part of the movement. This has been the predominant form of lending to women as 84 per cent of SHGs are women SHGs as on March 31, 2014. The scale of the programme is huge given savings of women SHGs in banks stands at over ₹80 billion as on March 31, 2014 and bank loan outstanding against women SHGs is over ₹360 billion as on March 31, 2014. The emphasis of the SHGF program is now to shift towards livelihood opportunities to SHG members apart from the expanding outreach across the country.

Role of MSMEs in poverty alleviation

19. Promoting growth of micro, small, and medium enterprises (MSMEs) is critical from the perspective of job creation which is recognised as a prime mover of the development agenda in India. MSMEs sector contributes about 45 per cent of the total industrial output, 40 per cent of the export and 8 per cent in the GDP. Also, the sector employs largest amount of workforce after agriculture and promotes balanced regional development. In terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are advised to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises and a 10 per cent annual growth in the number of micro enterprise accounts. It is also mandated that 60 per cent of MSE advances should go to the micro enterprises keeping in view large scale exclusion of micro enterprises from the formal banking system.

Focus on Skill development

20. Globally, most students after completing their class 12th are considered to be ready for a job as the education system prepares them for a vocation of their choice. In India, however, the lack of employment

opportunities after getting the basic education necessarily results in two outcomes – one of disillusionment with the education system and second, keep on pursuing higher education for want of a job.

21. Dearth of formal vocational education, high school dropout rates, inadequate skill training capacity, negative perception towards skilling, lack of industry ready skills even in professional courses, continue to stand out as some of the major causes of poor skill levels and lack of entrepreneurship in India's workforce. There is a pressing need to scale up the skills of the unorganised workforce within the sector as well as those of the MSME employers through training inputs. Integrating the skill development initiatives with secondary and intermediate level education would address the challenge of low education levels and also provide school dropouts with employability skills.

22. It is heartening to note that the Government is committed to encourage entrepreneurship in the country through a revision of the national skill development policy of 2009 so that schemes of different ministries can be routed through the newly formed skills ministry. This would be vital considering the current Government's thrust on 'Make In India.'

Conclusion

23. Before I conclude, let me raise a few concerns which can be detrimental to the consolidation and furtherance of the significant work done in the area of financial inclusion and poverty alleviation in the recent past.

- Is too much demand being placed on the banking system resources? The banks are presently almost alone expected to identify & enrol new customers, educate them, conduct Aadhaar registration, carry out administration of linked life/non-insurance schemes & pension products and so on. The issue is whether it would encroach upon their other obligations of credit dispensation, maintaining asset quality, maintaining service standards *etc.*

- Loan waiver schemes or employment not resulting into creation of social infrastructure/productive assets raise risk to broader work culture/credit culture in the country
- Non-adherence to basic economic discipline by the states *e.g.* in fixing the Minimum Support Price can be counterproductive in the long run
- Weakened Governance and multiplicity of regulations in the co-operative sector – Are we doing enough to exploit potential of co-operative sector?
- Need we draw lessons from the history of RRBs while pursuing BC model?

Then there are two larger issues – one each in respect of rural and urban poverty alleviation

- Don't we need a new model to enhance productivity & stop further fragmentation of already smaller land holding – Are DBT/ interest subvention long-term answers to these problems?
- Migration from rural India and rapid urbanisation is a reality with social, infrastructural, employment and inclusion dimensions – are we adequately prepared to deal with them?

24. It must thus be appreciated that poverty alleviation is a long drawn process and needs support from all quarters – the Government, other policy makers, the media and the society at large. Each one needs to do his/her bit to ensure that the poverty is defeated so that prosperity thrives. An ecosystem needs to be created which can fight poverty in all its manifestations. I once again thank Mr. Kochhar and SKOCH for inviting me to this Conference and wish the deliberations all success!

Thank you.