Chapter 1

INTRODUCTION

Over 200 years ago, Adam Smith – the father of modern economics saw in poverty not just a problem of having access to the basic necessities to support one’s life, but also a social handicap. Years have passed, different definitions of poverty have been framed and various approaches to eradicate poverty have been developed. Yet, it has to be acknowledged that poverty still prevails and it is significantly visible not only at the national but also at the global level. The present research has been undertaken with the fact in mind and faith in heart that if managed properly, the poverty can, if not totally be eradicated, yet can be alleviated to a significant level. The present chapter deals with an introduction to poverty, role of state and non state stakeholders in reducing poverty, prevalence of poverty in India and Government programmes for poverty alleviation, Multidimensional nature of poverty, different aspects urban and rural Poverty, estimation of poverty In India, poverty and inequality in India in Post Reforms Period, fallacy of trickle down theory and top down approach and an introduction to Microfinance.

1.1 Poverty- An Introduction

Today the entire global economy is changing face. We are living in a truly globalized arena in which the trade barriers are falling across the world, importance of foreign trade is rising and inter dependence among the nations of the world is increasing. Inspite of the current European crisis and turbulence in the Middle East the overall growth story of the global economy sounds attractive in the long run though there may be some hiccups in the short run.

The power is moving from the West to Asia and the economists are very optimist about the future of Africa which previously was considered as “Dark Continent” due to sheer poverty and political anarchy. The previously so called poor ‘Third World Countries’ are trying to come out of the state of plight and developing smoothly, the world equations are changing. Most emerging
economies are today in much stronger health, leaving them better able to withstand adverse global shocks. Their economic policies have matured: most have cut inflation, thanks to stricter monetary and fiscal policies; adopted more flexible exchange rates; and many have healthy current-account balance and have built up weighty foreign-exchange reserves.

Structural reforms to open up markets and to strengthen financial systems are also helping to improve the efficiency of investment. Today, in this globalized world the performance of any economy can not be judged in isolation. Today all the countries need to achieve synergy for the benefit of their own economy and for the global economy as a whole. Despite many economic challenges and worry from terrorism the time now has come with new horizons, new challenges and new opportunities. Mankind is enjoying fruits of advancements in science, technology and economic reforms.

Among all these we have to accept some bare realities too. About one billion people, one-sixth of the world's population, live on less than $1 per day - the minimum standard to satisfy the basic necessities of life; Millions of people, mostly children, die from malaria every year because of lack of funds and access to medical facilities; because of HIV/AIDS life expectancy in crisis countries like Botswana has dropped to below 40 years; in Sub-Saharan Africa, more than 15 of every 100 children die before the age of five; in Western Kenya, fertilizer costs more than twice what it costs in France or the U.S; Ethiopia is so deforested that rural households cannot use manure as fertilizer because they need it as cooking fuel... (World Bank Poverty Data 2005-2006). During recent years we have seen uprisings in North African countries and there have been economic difficulties in euro zone. Besides emerging economies are expectation and slowdown in growth rates. All these raise fears that funds to fight poverty will dry up to a major extent and achievements made in poverty reduction will receive a setback.

The above data reveals that poverty still prevails Poverty is lack of employment to earn the livelihood; Poverty is lack of food to survive; Poverty
is lack of shelter to reside; Poverty is lack of fund to fight fatal but preventable or curable diseases; Poverty is lack of ability, lack of opportunity to have access to education; Poverty is lack of money to be spent on the basic necessities of life. The World Bank defines extreme poverty as, “living on less than US$ (PPP) 1 per day”, and moderate poverty as, “living on less than $2 a day.”

Poverty is considered the worst scourge. It is the poisonous seed that gives birth to other vulnerabilities such as malnutrition, fatal diseases, illiteracy, unemployment and ultimately endangers the sound societal system, good governance, environmental stability and above all Human Dignity. Yes, the poverty still remains the greatest curse for mankind. The eradication of the poverty is a very ticklish issue which needs to be addressed with all the due diligence, dynamism, diplomacy and delicacy.

The issue of poverty remains a puzzle perturbing the Governments of Developing economies a lot. Most of the developing economies of the world are facing the problem of rising income inequalities. On one hand they have elite class of people mostly the Business class, that is from the Private Sector contributing to the nation’s growth by creating investment climate and employment opportunities; the middle class generally the largest segment of the nation’s population and the growth engine for the demand generation and consumption and the last being poor people whose problems need to be addressed timely and properly to continue the growth momentum. So the State can not ignore any class, be it rich, middle or poor, all needs to be managed with proper caution and the policy of the nation needs to be friendly to all the three classes to achieve not only growth and development but also for social security and stability.

1.2 Role of State and Non State Stakeholders in Reducing Poverty

It is the responsibility of the Government to mobilize revenue and spend it on infrastructure, services, state welfare and enhance the well-being of the community especially that of the vulnerable. The proper management of Public income and Public expenditure- that is the proper Fiscal Policy
Management is required on the part of the Government. The Fiscal Policy management is becoming a tougher and tougher issue for the government of the developing nations as the income, consumption and societal patterns are changing. A lot of prudence is required on part of the Government to properly formulate and execute Economic Policy and create conditions of development, benefiting all sections of the economy. The government cannot ignore employment generation through public investment in various projects, education, health services, food programmes, defense, public utilities and ensuring access to at least basic necessities to all its citizens. Hence, eradicating poverty and improving the standard of living of people, has been a major challenge.

Due to increased globalization poverty eradication has been the focus of not only developing countries but also of international institutions. The Millennium Development goals set by the United Nations (UN) reiterates the fact. Poverty eradication is also among one of the objectives of various international institutions like UN, WORLD BANK, Asian Development Bank which conduct various programmes for it. These institutes provide financial aid to nations to fight poverty and also conduct work shops, provide direct assistance for poverty reduction and development projects and also assist in availing micro finance facilities to the poor. The non-government organizations also recognize that poverty is a blot on Mankind, a threat to healthy and peaceful global development and hence regularly introduce various programmes and assist in solving the issue. The developed world is also interested in halving the problem of poverty not only because of pity, but also as now, it has realized that their economies have now matured, demand has saturated and now their MNCs have to eye the developing nations’ market where still many are poor- and if they come out of poverty, it will be a huge untapped market to sell their products. Thus poverty is such an issue which needs to be tackled for sustaining good global growth story and human glory and cooperation of multiple stakeholders is a must to achieve effective and lasting solutions.
1.3 Prevalence of Poverty in India and Government Programmes For Poverty Alleviation

In many developing countries including India, per capita incomes are low; income inequality has resulted in various evils, of which poverty can be considered as one of the most serious and challenging one which governments are grappling with, without desirable success. In India too, even now, in spite of all the efforts for development and accelerating growth achieved after economic liberalization, 34.3 per cent of population was getting less than $ 1 (PPP) a day in 2004-05 (World Development Report, 2008). This percentage of population is considered to be poor on an international criterion suggested by World Development Report. In general, most of the time this population suffers from extreme destitution. Since independence the Government of India is running various poverty alleviation programmes including programmes for employment generation, with varied level of success in meeting set objectives.

Vaidhya Nathan (2001), highlights the ways the Centre and the State Governments have undertaken various programmes to fight poverty in India. They all can be basically categorized in six parts.

1) Affirmative action by way of reservation for Schedule castes (SCs), Schedule tribes (STs) and Other Backward Class (OBC) in elected bodies, public sector jobs and educational institutes supplemented by special programmes with earmarked allocation for their development and welfare;

2) Programmes (notably) IRDP, TRYSEM, DWACRA designed to help poor segments to acquire or to increase their productive assets and enable them to make more productive use of assets;

3) Various special programmes to provide additional employment to the poor;

4) Schemes to ensure that all villages have access to a minimum standard of educational and health facilities, safe drinking water and roads;

5) Various forms of direct transfer by pension and insurance schemes for aged, disabled and widows; school feeding and child nutrition programmes;
subsidies and distribution of food grains and other essential commodities to the poor;

6) Special programmes for the development of production potentials for hilly tracts, deserts and drought prone areas.

These have not been all fruitful. These programmes suffer from various shortcomings like assuming that poor constitute a homogenous category, not taking into account the complexities of environment, having multiple and conflicting objectives instead of simplifying them by focusing on a single operational goal, not calibrating suitable and viable implementation strategy, red tapism, corruption, wrong identification of poor beneficiary resulting in false inclusion and false exclusion. The most important thing to notice here is the policy makers have perhaps been unsuccessful in understanding the multidimensional nature of poverty and different nature of urban and rural poverty.

1.4 Multidimensional Nature of Poverty

The basic lacuna in poverty reduction strategies not only in India but in other nations as well is the assumption that income is the sole indicator of the incidence and the depth of poverty. There exists a greater reliance on income as the sole dimension of poverty. It is mainly due to two reasons; first collecting data with respect to income is easier compared to collecting data with respect to other dimensions of poverty and second is the assumption that a poor earning more than a predetermined level of income is better off in all the dimensions and a single level of income indicates his performance in all dimensions.

However, the first reason sounds true, the second assumption doesn't seem logical because the same poor may require different levels of income for his performance in different dimensions. For example, for the same poor the level of income required for reasonable clothing is different from the level of income required to have access to housing. Thus, a single level of income can not truly represent the intensity of poverty in all dimensions and hence even if income is to be used as the major dimension of poverty its relation with other
dimensions has to be found and different levels of income for different dimensions must be analyzed for sound policy making.

Now it has been started realizing that there are many indicators, which depict the nature and depth of poverty. Not only income but also other dimensions like lack of land (land holding can to a great extent affect poverty especially in rural areas), lack of proper sanitation facility, lack of appropriate clothing, inability to feed one self and family, lack of shelter, level of literacy, burden on children and female to work, non availability of means of livelihood or availability of very less remunerative means of livelihood, non availability of basic education to children, instances of frequent borrowings and non accessibility to basic financial services through formal sources, migration, type of assistance preferred and many other parameters indicate whether a person/household is poor and to what extent he/it is poor. Not only that, the concept of the multi dimensional nature of poverty is dynamic and dimensions may vary from nation to nation.

As there is dearth of resources it is essential to identify to what extent a person/household is poor in a particular dimension and include that person/household in the programme crafted for that particular dimension. For example, a person/household by income standard may be above poverty line and hence he/it may not need assistance through Government employment programme but lacks the access to basic sanitation facility, so he/it should be the beneficiary of the assistance provided under sanitation programme. It doesn’t mean that income is not important in determining the level of poverty, it still will remain the guiding criteria in identifying poor but it should not be considered the sole criteria in identifying and targeting poor because a person/household earning more than a predetermined level of income may be poor in other dimensions. In a nutshell, understanding different dimensions of poverty and interrelation between them is must for prudent policy making.

Looking at rising importance and voice among economists and other poverty reduction strategists regarding appropriateness of multidimensional nature of poverty in framing poverty reduction strategies, the Multidimensional Poverty Index (MPI) was developed in 2010 by Oxford Poverty & Human Development
Initiative and the United Nations Development Programme. It uses different factors to determine poverty beyond income-based lists. It replaced the previous Human Poverty Index. The MPI is an index of acute multidimensional poverty. It shows the number of people who are multidimensionally poor and the number of deprivations with which they typically contend. It reflects deprivations in very rudimentary services and core human functioning for people across 104 countries. MPI reveals a different pattern of poverty than income poverty, as it illuminates a different set of deprivations. It is now considered the best available tool to identify deprivations and providing assistance in targeting that deprivation.

1.5 Different Aspects of Urban and Rural Poverty

Besides it is erroneous to assume the similarity between urban and rural poverty. In our country the programmers run both by the centre and the state tilts in favor of rural poverty alleviation. It has been often ignored that urbanization has its own challenges. Urbanization is taking place at a faster rate in India. Population residing in urban areas in India, according to 1901 census, was 11.4 per cent. This count increased to 28.53 per cent according to 2001 census, and crossing 30 per cent as per 2011 census, standing at 31.16 per cent. According to a survey by UN State of the World Population report in 2007, by 2030, 40.76 per cent of country's population is expected to reside in urban areas. The ones who are going to be affected most by this are the poor.

Modern urbanized life has already produced a new environment, creating new problems of adaptation. Cities are becoming over-populated and overcrowded partly as a result of the increase in population over the decades and partly as a result of migration of persons from the countryside to the big industrialized cities in search of employment, or in search of a higher standard of living and better living conditions. As decent habitation is not possible for them to afford, the poor are driven by necessity to living on foot paths or in slums under most intolerable conditions of incredible squalor, dirt and disease; in fact, they are unfit for habitation, a disgrace to the community. Being devoid of hygienic and sanitary considerations, they breed all kinds of
epidemics. They become the nerve centers of all the worst vices and crimes, for all kinds of persons earning their livelihood by dubious means—beggars, thief’s, pickpockets, prostitutes, chronic drinkers, vagabonds, gamblers and drug peddlers and the like come to live in slums. To avoid poor being victims of all these suitable planning has to be made by creating economy which provides them good jobs and other civic amenities.

It of course doesn’t mean that tackling rural poverty is not important it is equally important. Even today poor in rural areas outnumber their counterparts in urban areas. Rural areas have their own challenges, a high prevalence of illiteracy, less diversified economy which compels poor to migrate to urban areas in search of livelihood, lack of infrastructure, day to day hardships and so on. If the problems faced by rural poor can be understood properly and effective solution provided then they need not migrate to urban areas which will in turn reduce pressure on urban economy as well. That’s why Dr Kalam- celebrated scientist and Former President of India, has given an enlightened vision of Providing Urban Amenities in Rural Areas (PURA). So the key to success in achieving poverty reduction is to understand clearly the specific problems faced by the poor in urban areas, by the poor in rural areas and the general problems faced by the poor in both the areas.

1.6 Estimation of Poverty in India

In India the Planning commission estimates the incidence of poverty on the basis of the large sample surveys on household consumer expenditure conducted by the National Sample Survey Organisation (NSSO) at an interval of approximately five years. The Uniform Recall Period (URP) consumption distribution data of the NSS 61st Round yields a poverty ratio of 28.3 per cent in rural areas and 25.7 per cent in urban areas and 27.5 per cent for the country as a whole in 2004-05. The corresponding poverty ratios from the Mixed Recall Period (MRP) consumption distribution data are 21.8 per cent, 21.7 per cent and 21.8 per cent respectively. While the former consumption data uses a 30 day recall reference period for all items of consumption, the latter uses a 365 day recall/ reference period for five infrequently purchased
non-food items, namely clothing, footwear, durable goods, education and institutional medical expenses, and a 30 day recall/reference period for remaining items. The percentage of poor in 2004-05 estimated from the URP consumption distribution of NSS 61\textsuperscript{st} Round consumer expenditure data is comparable with the poverty estimates of 1993-94 (50\textsuperscript{th} Round), which was 36 per cent for the country as a whole. The percentage of poor in 2004-05 estimated from the MRP consumption distribution of NSS 61\textsuperscript{st} Round consumer expenditure data is roughly comparable with the poverty estimates of 1999-2000 (55\textsuperscript{th} round), which was 26.1 per cent for the country as a whole, (Economic Survey, government of India, 2009-10).

1.7 Poverty and Inequality in India in Post Reforms Period

The benefits of reform undertaken since 1991 has helped in putting Indian industry in a very different trajectory. The fruits have not reached to all especially to those at the bottom of pyramid. In India, (Dev S Mahendra and C Ravi, 2007) with published data available from the 61st round (2004-05) of the National Sample Survey, analysis over the period 1983-2005 show unambiguously that in spite of higher overall growth, the extent of decline in poverty in the post reform period (1993-2005) has not been higher than in the pre reform period (1983-1993). The second clear conclusion is that inequality has increased significantly in the post reform period and seems to have slowed down the rate of poverty reduction. Thus the poverty eradication and reduction in inequality despite being one of a priority agenda for the Government, success achieved is still far from desirable.

1.8 Fallacy of Trickle-Down Theory and Top Down Approach

One of the reasons for the poverty reduction strategies not yielding desired results is the assumption that the economic growth will automatically lead to reduction in poverty popularly known as trickledown theory. Experience over the years and across the nations reveal that growth is a prerequisite but doesn’t automatically reduce poverty. For the growth to be pro poor, the State (the Government) has to create conducive environment in which there are more job opportunities for the poor, they have better accessibility to health
and education and other amenities. The poor can not be left to the mercy of market economy. The Government has to make positive intervention to see that the growth is inclusive and sustainable.

Not involving the poor for whom the poverty reduction strategies are framed, in policy making also retards the effectiveness of poverty reduction strategies. Involving people, in particular the stakeholders in decision making for enhancing efficiency has been mentioned by Robert Putman (1993) in his seminal book ‘Making Democracy Work’. In this book he answers the question of what conditions are conducive for creating strong, responsive, effective representative institutions. Putman worked on Italian experiments on regional decentralization and concluded that for effective good governance prerequisites are active participation of the civic culture in which the participants are bound together by horizontal relations of reciprocity and co-operation and not vertical relation of authority and dependency. These norms and values instil among members habits of co-operation, solidarity and public spiritedness. They are termed as ‘social capital’, which includes features of social organization like trust, norms and networks, which improve the efficiency of society by facilitating, coordinated actions. Since then, people have increasingly started questioning the idea of top-down state facilitated development programmes and begun talking of people’s involvement and participation in the programmes. For achieving remarkable reduction in poverty in India we have to involve poor in decision making at least in the policies which are formulated for them. Various NGOs, social self help groups, corporate including financial institutions, international and supra national players also need to be engaged productively. It is the coordination among these stakeholders which can provide lasting solution.

1.9 Microfinance- an Introduction

In China they say “If you want to feed a man for a day give him a fish but if you want to feed him forever teach him to catch fish.”

The role of microfinance is alike the second part of the saying. Microfinance has emerged as an important tool to help low income men and women.
Microfinance is the type of Financial Service provided where the unit size of transaction is small, micro in nature, typically lower than the average GDP per capita of the nation, although the definition varies from country to country (Robinson 1996). With Muhammad Yunus the pioneer of the Grameen Bank a leading Microfinance Bank, in Bangladesh receiving the Noble Prize for peace for his work in the field for the year 2006, microfinance has become a buzzword and has received attention of many scholars as an effective tool in poverty reduction and promoting growth and development. The reason for the popularity of microfinance is that, by enabling the low income, poor class of the society to avail basic financial services it helps them to make proper utilization of money in productive manner and thereby becoming self reliant and come out of vicious circle of poverty. Microfinance activities generally include small loans provided for working capital, informal appraisal of borrowers and investments, collateral substitutes such as group guarantee or compulsory savings, access to repeat and larger loans based on repayment performance, streamlined loan disbursement and monitoring, secure saving products etc.

The growing number of success stories of microfinance in helping the poor to come out of poverty and in helping them in building up self sufficiency has attracted the attention of the policy framers, poverty fighters and players in the field of financial services. Today, indeed micro finance has got recognition as an effective tool for fighting against poverty and attaining development. The major players in this field include: Microfinance Institutions (MFIs), Non Government Organizations, Saving and Loan cooperatives, credit unions, Banks and Non Banking Finance Companies. More over in the world over for a last few years the commercial banks have started eying on this segment which is different from traditional services they offer. They have started proving that, the commercial banks by entering in this field can bring more innovation, increase outreach and provide better services. In depth analysis of microfinance as a poverty reduction tool and its performance has been made in upcoming chapters. Hence, an indepth study of all related aspects would be interesting to understand gamut of issues.
With this basic introduction an intensive review of literature both in the national and global context is made, which is presented in the next chapter. This facilitates finalization of objectives for present study.