Chapter V

Summary of Findings and Recommendations

5.0 Introduction

Microfinance is regarded as one of the most powerful weapons to bring the poor into the mainstream of development through its grass-rooted and bottom-up approach. This empirical study is made to analyze the impact of microfinance programmes promoted by both the State Government and NGOs on poverty alleviation and household welfare in Kerala by comparing both the socio-economic conditions of the participant households before and after microfinance intervention and also by comparing the participant households with the non-participant households.

5.1 Major Findings

The analysis of the impact of microfinance programme on poverty in Kerala brings to light the following important findings:

1. Majority of the microfinance clients are in the age group of 31-40 years. Moreover, the participant group is younger compared to the non-participant group.

2. The number of SC/ST families is relatively high among the non-participant group, indicating that their participation in microfinance programme is comparatively low. The percentage of SC/ST and OBC members is found to be more in the Kudumbashree group than in the NGO group.

3. The microfinance participants have better education compared to the non-participants.

4. All the clients have more than five years of participation in the microfinance programme. The duration of participation is longer in the case of the members of the NGO groups.
5. Meeting on weekly basis is common among all the groups under the NGOs and Kudumbashree. The collection of thrift fund, repayment of old debts, disbursement of loans and selection of beneficiaries for various schemes are the major transactions done during the meeting.

6. The depth of outreach of microfinance programme to the poor and the weaker sections is more evident as all the clients were in the State BPL list and an overwhelming majority of them had no formal credit and savings in the pre-microfinance period. Further, the SC/ST and OBC families constituted half of the participants.

7. The variables such as age and caste of the client, BPL/APL family and duration of participation are found to be significant among the various determinants of the level of participation of the clients in the microfinance programme. The regression co-efficient of age turned out to be negative reflecting that the higher age of clients reduced total borrowings from microfinance programme. The caste of the participants appeared to be a constraint to the volume of their borrowings. The borrowings of SC/ST and OBC households are substantially less than those of the households belonging to general category. The borrowing of the BPL family is less than the APL family by ₹25,381. It signifies that the economically better-off clients derived better benefits from the programme. Finally, a one year increase in the participation of microfinance programme enhanced the total borrowing from microfinance by ₹7569.

8. All microfinance clients made use of both thrift and IGA loans. But there are some clients who have not yet obtained bank linkage loan on account of the failure of their groups to fulfill the eligibility conditions put forward by NABARD for linkage loan. Vast majority of these clients belonged to the Kudumbashree groups of Kottayam and Wayanad districts.

9. The average household loan per year of the microfinance clients is estimated to be ₹11,751. It is almost the same for both the NGO and the
Kudumbashree groups. However, Kudumbashree clients of Idukki and Wayanad districts have borrowed greater volume of credit for IGAs, compared to the members of the NGO groups. Further, the total borrowing of the microfinance clients are much higher than that of the non-participants.

10. There is a drastic change in the borrowing pattern of the participant households during the post-microfinance period, where, SHGs/NHGs became major source of borrowing for both the NGO and the Kudumbashree clients. Whereas, in the pre-microfinance period, money-lender was the principal source of borrowing and now their dependence on money-lenders has been eliminated almost completely.

11. The interest rates imposed on microfinance loans ranged between 5 to 13 percent per annum. The interest rate on thrift loan is 12 percent both for the NGO and the Kudumbashree borrowers. The interest earnings of such loans are distributed annually among the members of SHGs/NHGs after auditing since these loans are disbursed out of the pooled savings of these members. The interest rates charged on linkage and IGA loan are relatively higher in the case of the borrowers of Kudumbashree groups, which ranged between 9% to 13% per annum. Most of the clients of PDS got both these loans at 5% of interest. The PDS could do so by using the concessionary loans availed from the Backward Classes Development Corporation.

12. More than half of the clients utilized both thrift and linkage loans for productive purposes. However, unproductive use of these credits is significantly high among the members of Kudumbashree groups in all the three districts.

13. Nearly 95% of the clients made prompt repayment of their loans availed. Default on the repayment of loans is more prevalent among the Kudumbashree clients and the largest number of such defaulters is found in the district of Wayanad. A plausible explanation for this trend is the
low level of income generation from the economic activity taken up and the diversion of credits for unproductive purposes.

14. The loan requirements of vast majority of the clients are fully met by their SHGs/NHGs. The NGO groups are more pronounced in fulfilling the credit needs of the clients except in Idukki district. The proportion of clients with not-fully-met credit needs is significantly greater in the Kudumbashree groups of Kottayam district. This has been due to the poor lending capacity of the NHGs on account of low amount of weekly savings by its clients and lack of bank-linkage loan.

15. The main type of IGA taken up by the clients is animal husbandry, followed by manufacturing. Most of the clients of both the Kudumbashree units and the NGOs in Kottayam and Idukki districts are engaged in animal husbandry. Whereas, in Wayanad district, more than half of the Kudumbashree clients worked in the manufacturing sector. The number of clients working in the agricultural sector is reported to be the highest in the Shreyas group of Wayanad district.

16. Financial assistance and subsidy, imparting trainings, monitoring and follow-up action and marketing facilities are the prominent support offered by the promoters of microfinance programme to the clients in starting and running their economic activities. Kudumbashree is well ahead of NGO group in terms of the provision of financial assistance and subsidy and marketing facilities to the clients, while NGO groups are dominant in monitoring and follow up action in all the three districts.

17. Most of the microfinance clients were unemployed during the pre-microfinance period. However, consequent to microfinance intervention all of them got some employment in the economic activities taken up by them. A good many of the clients got employment for more than 21 days per month. The days of employment generation per month is greater among the Kudumbashree clients in all the three districts. The
employment generation capacity of microfinance is more apparent as more than half of the non-participants have no employment at all.

18. The monthly income generation is the highest in the manufacturing sector and the lowest in the animal husbandry. The economic activity generated a monthly income of above ₹3000 among 22.3% of the clients. Out of this, more than 10% of them earned a monthly income of above ₹5000 and majority of them belonged to the Kudumbashree group. An important finding is that nearly one third of the clients are able to earn only less than ₹1000 per month and bulk of them are from the districts of Kottayam and Idukki. This can be attributed to the low level of income generation in animal husbandry especially goat rearing, since most of the clients in these districts are engaged in it. Income generation is relatively higher among the Kudumbashree clients in all the districts.

19 More than 40 percent of the participant households have monthly income of above ₹4000. Kudumbashree has the highest number of such households. However, an overwhelming majority of the non-participant households earn income less than ₹2000 per month. This may be because of their poor resource endowment and lack of regular employment. The positive impact of microfinance on household income is indicated by the statistically significant regression co-efficient of average amount of borrowing per year, indicating that a 10 percent rise in borrowing per year from microfinance programme enhances the household monthly income of the client by 7.9% and per capita monthly income by 2%. The values of these regression co-efficients are significantly higher among the Kudumbashree group. Moreover, the participants with higher education are likely to contribute more to their household income compared to the clients having less education.

20 The food intake of majority of the household of microfinance clients has been more than three times per day. It is very low in the case of non-participant households. The benefit of microfinance intervention became more evident as 15 percent of the participating households were able to
access only two square meals per day in the pre-microfinance period and nobody was found in this category during the post-microfinance period.

21 As per regression estimate it is found that the per capita monthly total consumption expenditure of the participant household is greater by ₹376 compared to the non-participant households. The value of regression co-efficients also suggested that an increase of average borrowing per year by 10 percent will lead to a 1.3 percent rise in the per capita monthly total consumption expenditure of the participant household. The value of this co-efficient is significantly higher in the case of the Kudumbashree group in comparison with the NGO groups. Similarly, the monthly expenditure on food, non-food and total monthly consumption expenditure of the households of Kudumbashree clients is much higher than that of the NGO households in all the three districts.

22 Microfinance programme inculcated a habit of regular savings among its clients. All the participant households have some savings in the post microfinance period, while almost 99 percent of them had no savings in the pre-microfinance period. The average total savings of the participant household is ₹20380. More than 62 percent of the clients have savings in post office or chitty or both, apart from the savings in SHGs/NHGs. The positive role of microfinance programme in the promotion of savings is more visible as the number of the non-participant households with savings is substantially low with 6.7 percent. The NGO groups are better placed in the case of average total savings of the client in Kottayam and Wayanad districts, whereas, in Idukki district Kudumbashree has its dominance.

23 There is a significant increase in the number of clients with insurance policy (51.3%) during the post microfinance period and majority of them have the policy amount of above ₹25000. Among the non-participants only 4 percent of them have insurance policy, with a policy amount less than ₹25000. Insurance policy subscription by clients is more prevalent among the NGO groups of Idukki and Wayanad districts.
The asset holdings of participant households enhanced significantly. Majority of the clients acquired various assets such as livestock (46.67%), gold jewellery (45%) and various consumer durables (68%). The acquisition of gold jewellery is more conspicuous in the Kudumbashree groups both in Idukki and Wayanad districts. Microfinance clients of CHASS and Shreyas are well ahead of the Kudumbashree clients in the possession of most of the consumer durables. Further, the participant households out-numbered those in the non-participant households with respect to the possession of all the consumable durables.

The most striking finding of the study is that microfinance have contributed to alleviation of poverty substantially. The subjective and objective poverty approaches have been used to determine the poverty status of the participant households. The results of both techniques indicate that the incidence of poverty among the participating households is significantly less than that of the non-participant households. All the participant households were in the State BPL list before joining the microfinance programme and now 22% of them came out of the poverty trap as per this list. The subjective poverty estimate has revealed that 27% of the participant families are APL. The proportion of participant households feeling APL and number of households who turned into APL as per State poverty estimate is found more in the Kudumbashree groups of Idukki and Wayanad districts. The rate of poverty reduction is almost the same among both the groups in Kottayam district.

There was a sharp reduction in the number of homeless clients and hut dwellers in the post microfinance period. Further, many participant households could improve their dwelling houses through microfinance. Their number is recorded higher among the clients of CHASS and PDS.

The participant households are ahead of the non-participant households with respect to the possession of basic amenities such as drinking water, electricity, LPG and land phone with the exception of sanitary facilities. The households belonging to the Kudumbashree groups out-numbered
those in the NGO groups in the possession of these amenities. Lack of safe drinking water is a common problem confronted by both the participant and non-participant households. However, this problem is more acute among the households of non-participant group.

28 The participants of microfinance are ahead of the non-participants in terms of the provision of better education to children. Among the microfinance groups, Kudumbashree is placed better in this regard in all the districts.

29 Majority of the participant households availed themselves of better medical treatment from the private hospitals compared to the pre-microfinance period. In contrast, most of the non-participants relied on the government hospitals for medical treatment.

30 Microfinance clients took part actively in the activities of Grama Sabha. However, the participation of the non-participants in Grama Sabha is much less.

31 The active participation in the microfinance programme brought about perceptible changes in the lives of its clients. Almost all the clients could make substantial improvement on various indicators of personal empowerment such as knowledge and social awareness, leadership qualities, co-operative mentality, communication skills, self-confidence, decision making capacity and abilities to face problems.

32 The major problems confronted by the clients are categorized into four, namely, organizational problem, financial problem, production problem and marketing problem. The main organizational problem faced by the clients is the lack of encouragement to IGAs, poor monitoring and follow-up action and politicization of the programme. Among the various financial problems, the crucial problem cited by the clients is high interest rate on loans and low income-generation from the economic activity undertaken. High cost of production, difficulty in getting raw materials, inadequate production and lack of training are the prominent problems
cited under the production problem. In the case of marketing problem, main issues identified are lack of demand for the products manufactured, lack of market information and severe competition from the branded products.

5.2 Test Results of the Hypotheses

Based on empirical findings, this study accepts the first hypothesis that microfinance programmes are helpful in alleviating poverty of the rural households, a great deal in the reduction of poverty. The second hypothesis of the study proposes that there is a significant difference in the per capita monthly income and per capita monthly total consumption expenditure of the participant households and the non-participant households of the microfinance programme. The findings of the study support this hypothesis too.

5.3 Theoretical Analysis

The theoretical underpinning of Baker-Hopkin credit model stands justified to a great extent in this study. The delivering of credit-plus services provided through microfinance programme enabled the poor to undertake certain IGA which enhanced their household income and thereby created positive impacts on their socio-economic conditions and living standards. However, accumulation of capital is low for many clients owing to high rate of interest paid on loans taken and poor generation of income from the enterprise taken up.

5.4 Recommendations

Based on the findings of the present study, the following recommendations are placed to make this programme more effective and to realize its envisaged objectives.

(1) Both Kudumbashree and NGO groups should extend further their depth of outreach to the poor and the vulnerable sections of the society since SC/ST and OBC families still remain among the non-participant group.

(2) The key issue identified by the study is that many IGAs undertaken by the clients are not remunerative and hence they are on the verge of closure.
Therefore, Governments at the State and local levels as well as NGOs should take serious efforts to enhance their earnings by providing supporting facilities especially marketing opportunities, ready availability of raw-materials and strengthening the monitoring mechanism.

(3) Another important finding is that the better off amongst the poor are benefiting most from the programme and the benefits derived by the core and the moderate poor are relatively less. Therefore, the State Kudumbashree Mission and NGOs should evolve some products and services serving to the needs of the core and the moderate poor for deriving greater benefits by them.

(4) The political interventions under the Kudumbashree programme create adverse impact on the smooth operations of the programme and also in achieving its professed goals. Hence, the State Kudumbashree Mission must take positive steps to free Kudumbashree from politicization by framing and administering strict objective criteria for the selection of beneficiaries for various schemes as well as in disbursing financial assistance and other benefits.

(5) As many NHGs under the Kudumbashree programme have not been eligible to have access to linkage loan from banks, the State Kudumbashree Mission should give necessary directives to the CDS to pay special attention to these groups on solving their problems and making them eligible to get linkage loan. This can further lead to better fulfillment of the credit needs of their clients.

(6) The State Kudumbashree Mission and NGOs must encourage the clients to utilize the thrift and linkage loans for productive purposes, which will facilitate easy and prompt repayment of these loans.

(7) The debt-liability of the participating households is increasing alarmingly. Moreover, some of the clients have dual or multiple memberships in various microfinance programmes promoted by communal outfits and NGOs and also made use of these sources for borrowing. These trends
may pose serious problem in the near future with respect to the repayment of loan and can become a great social issue leading to mass suicide in the state. Hence, there is need for co-ordination among the various microfinance groups in order to put some ceiling on the volume of borrowing from each group. Further, the State Government should take necessary measures to control the multiple memberships.

(8) The State Kudumbashree Mission and NGOs must encourage the clients to take up IGAs which should be made more remunerative and less risky. It is to be further recommended that they should also assist the clients in identifying economically viable enterprises.

(9) The high interest rate of the loan given to the poor under the microfinance programme is also a cause of concern. Therefore, the Government and NGOs should make available low interest bearing or interest free loans to the clients which would make the enterprises more remunerative and reduce their repayment burden. Like PDS, CHASS and Shreyas should make use of low interest bearing loans available from various Government agencies like Backward Classes Development Corporation, for lending to their clients.

(10) There is a need for a strict monitoring-mechanism under the microfinance programme to reap better results. If there is regular internal monitoring by the group, by the ADS and CDS members and external monitoring by the representative of the bank and officials from the promoting agencies at the district/regional level, such a measure will ensure proper utilization of the loan and disbursing of benefits to the deserving clients as per the stipulated norms of each scheme. It also helps the IGA units to tide over their temporary difficulties and to sustain the initial increase in income over a long period of time. Moreover, a tight monitoring system can improve the recovery of loans, promote unity and co-operation among clients by settling their conflicts and misunderstanding and reduce the drop-outs.
Governments at the State and local levels and NGOs should ensure ample market for the products produced by the clients. They should also support the clients for improving the quality, packaging and branding of the product. It is also recommended that the State Government can support the clients by making departmental purchases from these enterprises and can provide avenues to market their products through the Supply-co outlets of State Civil Supplies Corporation. Further, Local Self-Government should organize weekly or monthly market to sell the products of the clients.

Lease land farming and group farming especially of pure vegetables, plantains, bananas, and even paddies, have immense potential for income generation and to make every Panchayat self-reliant in such agricultural products and to share/sell among the Panchayats with less cultivable land, as there is large area of uncultivated land in the State. Hence, State Government in collaboration with the Agricultural Department should evolve a scheme for the clients and implement it through the help of ‘Krishi Bhavan’. Moreover, Government also must encourage the clients to take up this by providing subsidies, interest-free loans and free seeds, fertilizers, etc.

Under the Kudumbashree programme, the functioning of SC/ST NHGs and their running of micro-enterprises are very poor. The State Kudumbashree Mission should, therefore, initiate proper steps to reshuffle these NHGs to include other categories of clients in order to improve their performance and also must introduce special programmes for the upliftment of SC/ST families.

As majority of both the participant and non-participant households have the problem of shortage of safe drinking water, State and Local Governments must pay attention to solve such problems including sanitation urgently.
(15) More training programmes should be organized to raise the awareness level of clients on technical know-how, consumer preferences, marketing of products and for widening skills of clients and their up-gradation which will result in the better management of IGAs and a generation of more income.

5.5 Conclusion

Microfinance programme has achieved remarkable success in reaching the poor and bringing banking services to their door-steps of the poor. It has also succeeded in making the poor economically active by way of increasing the employment and income levels as well as the asset base. This intervention has become a vital channel for reducing under-nourishment and poverty and promoting human capital investment such as education and health. In addition to considerable progress in the household welfare, the clients experienced an impressive improvement in their personality and social position.

However, microfinance can serve as a still better instrument of poverty alleviation and of promoting household welfare if the State Government and NGOs focus greater attention to widen economically viable self-employment choices and the skill base of the clients, to assist the clients in getting interest-free or low interest–bearing loans, in marketing and in improving the quality of their products, and also by strengthening the monitoring mechanism and ensuring benefits of the programme accruing to the core and moderate poor too. Otherwise, the potential benefits of microfinance cannot be realized on a sustainable basis.