Micro Finance and inclusive Growth: Indian Experience

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Abstract

Inclusive Growth model is accepted widely to incorporate social justice in development and in India, Inclusiveness, was a critical element in the strategy of IXth Five Year Plan. It was to achieve by ensuring broad-based growth and was combined with programmes aimed at overcoming deficiencies in critical areas, which affect large numbers of the vulnerable sections of the population. Financial inclusion is one of the area, where such programmes are planned and implemented. This paper attempts to provide discussions on the financial inclusion programmes in India basically with reference to finance to poor and women empowerment. Analysis of national agenda for reforms in the financial sector, key issues on financial inclusion, and evaluation of the financial inclusion programmes in India in terms of financing poor, financing women empowerment activities.

***Key words**: Inclusive growth, Financial inclusion, Microfinance, Self-Help Groups, Bank linkage Programmes*

Introduction

Inclusive growth encompasses ideas related to basic needs and equity thereby taking all sections of the society with growth. It's broader in focuses and expects growth results to reach all strata of society. Reduction in poverty and disparities of income and ensuring basic minimum standard of living for all are the objectives of inclusive growth. Improvement of the standard of living results from access to productive assets and finance to utilize assets for income generating activities. It has to become an integral part of the efforts to promote inclusive growth. In fact, providing access to finance is a

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form of empowerment of the vulnerable groups.

Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include savings, credit, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include people with low incomes within its ambit. Through graduated credit, the attempts need to be lifting the poor to higher level so that they come out of poverty. Financial inclusion may, therefore, be defined as a process of initiating access to timely and adequate credit and other financial services by vulnerable groups such as weaker sections and low-income groups at an affordable cost.

In Indian context to provide rural financial services strong institutional network has been established during the Five Year Plan. The institutions which currently provide financial services in the rural areas include branches of commercial banks, regional rural banks, cooperative societies and micro-finance institutions. Now, there is a need to find ways and means to effect improvements within the existing formal credit delivery mechanism and evolve new models for extending inclusive growth policy. In a broad sense, we need to address issues on the supply side as well as demand side. The formal banking system, the rural cooperatives and non-governmental organizations need to evolve a model to reach the excluded section of the society. The financially excluded sections require products which are customized to meet their needs. Unless steps are taken on the "real sectors" (demand side), mere supply side solutions from the financial sector will not work. Credit has to be an integral part of an overall programme aimed at improving the productivity and income of such farmers and rural households. Putting in place an appropriate credit delivery system to meet the needs of marginal and sub-marginal farmers need go hand in hand with efforts to improve the productivity of such farm households.

With this background, in this paper attempts provide discussions on the financial inclusion programmes in India basically with reference to finance to poor and women empowerment. The main aim of this paper is;

1. To analyze national agenda for reforms in the financial sector
2. To discuss key issues on financial inclusion, and

3. To evaluate the financial inclusion programmes in India in terms of financing poor, financing women empowerment activities

Method

Paper provides descriptive analysis of financial sector reforms and key issues related to financial inclusion followed by an analysis of Indian performance in this regard, based on secondary data. Data related to Self Help Group Movement from NABARD and RBI publications were used to analyze the performance in the recent years.

National Agenda for Reforms in the Financial Sector

The need of reforms in the domestic financial sector has been explicitly recognized since the 1990's. The Narasimhan Committee Reports and the Chelliah Committee Report on Fiscal reforms, among others, stand out distinctly in this regard. Reflections on the selected issues of reforms in the financial sector may be seen in the form of following questions;

(i) Whether, Indian Banking System ready for a rigorous competition from the highly sophisticated and large-sized multinational banks? And the approach of Consolidation and Convergence of the Public Sector Banks a sure remedy for inducting competitive strength in the Indian Banking Sector? Even after mergers and acquisitions, would the resulting large banks, be large enough to use size as a factor for competition?

(ii) What about the factors, such as, degree of sophistication in technology, work culture, managerial efficiency, research capability, product-diversification, and cross-border accounting adjustments, with which the competing banks are endowed?

(iii) How to make the banking sector strong enough to withstand the financial market turbulences, originating, essentially, in the equity markets-both within and outside the country?

(iv) How to introduce greater transparency and objectivity in the accounting and disclosure practices of the banks?

(v) How to manage the most significant weakness of the Indian Banking sector, the persistence of large levels of NPA's; How could the process of Mergers and Acquisitions, average out the strengths and the weaknesses of the different Banks, unless some proactive measures are taken to reduce the levels of NPA's in the Banking sector as a whole?

(vi) What initiatives are taken for rehabilitating the surplus staff, which would be thrown out of jobs, when once the consolidation process is set into motion?

(vii) How does one deal with the phenomenon of massive increase in the internal liquidity, which is caused by expansion of the reserves? It should be noted that much of the increase in the reserves is caused by the inflows of short term capital, essentially through portfolio investments by Foreign Institutional Investments (FII's), which do not have the same stability features as Foreign Direct Investments (FDI's).

(viii) When competition becomes the prime feature of the financial sector, what happens to the problems of the functions of social banking that have been stipulated, rather uniquely, for the Indian Banking system?

Access to Rural credit

After the nationalization of the commercial banks in India, their expansion in the rural area is remarkable. The commercial banks have a large outreach, with more than 33,500 branches in rural and semi-urban centers in the country. The critical question is how to make these rural branches more effective in terms of delivering credit to the small and the very small borrowers. Several strategies were discussed in this regard, and it is noticed that a critical factor required for providing credit to marginal and sub-marginal farmers or other small borrowers is the empathy of the bank officers. Rural lending requires a different and specific type of organizational ethos, culture and attitude. Rural branches of banks have to be farmer-friendly or poor-friendly. Banking to the low-income groups needs motivated bank staff.

Rural branches need to go beyond providing credit and extend a helping hand in terms of guide and advice on a wide variety of matters relating to agriculture and small entrepreneurship activities. One may have to think in terms of branches on the lines of agricultural development branches of SBI, where advice on farm and non-farm issues are provided by technical staff attached to the branches.

The banks operating, presently, in the formal financial system comprises of Public Sector Commercial Banks (27), Private Sector

Commercial Banks (28), Regional Rural Banks (86), State Cooperative Banks (31) and District Central Cooperative Banks (371). It is observed that most of the banks participating in the process of micro finance have reported their progress under the programme.

Regional Rural banks (RRBs) are yet another instrument to achieve the goal of financial inclusion. R.R.Bs was originally conceived as low cost institutions having rural bias, local feel and pro-poor focus. The original assumption regarding the low cost nature of these institutions was belied. In fact, they soon turned into loss making institutions. With the changes introduced in the post-liberalization period, there is a remarkable turn around in the financial performance of the RRBs. At present, RRBs have close to 15000 branches in rural areas. The share of RRBs, in the loan account of all scheduled commercial banks in rural areas is an impressive 37.0 per cent. However, they account for only 21.0 per cent of the total credit outstanding in rural areas implying thereby that the clientele comprises small borrowers. RRBs have done well also in relation to the promotion of SHGs. Of the total 22.4 lakh SHGs credit linked by the banking industry, 33.0 percent linkage is done by RRBs. Strengthening of the RRBs could be one major policy intervention for promoting greater financial inclusion.

The SHG bank linkage scheme has proved to be an effective way of providing credit to very small borrowers. This needs to be further strengthened. The SHG-bank linkage programme has worked well and has contributed significantly to financial inclusion. The cumulative number of groups financed by the banking system is close to 2.3 million. The financial inclusion attained through SHGs is sustainable and scalable on account of its various positive features. One of the distinctive features of the SHG-bank linkage programme has been the high recovery rate. However, the spread of SHGs is very uneven and is more concentrated in southern states. This regional imbalance needs to be corrected and special efforts in this regard may have to be made by NABARD. SHGs also need to graduate from mere providers of credit for non-productive purposes to promoting micro enterprises. Several state governments have been very active in the promotion of SHGs. However, there is no need to provide any interest rate subsidy to SHGs. Banks do provide them credit at reasonable rates of interest. The financial support of the state governments could be better directed towards building appropriate capacities in the Self-Help Groups and providing technology support and marketing facilities. Federations of SHGs at village and taluka levels have certain advantages. However, the disadvantage is that banks may lose their direct contact with SHGs, if federations act as intermediaries between the financing banks and SHGs. The best course of action would be to make the federations act as facilitators rather than as financial intermediaries. Federations, if they emerge voluntarily from amongst SHGs, they need to be encouraged.

In order to increase the outreach of the banking sector, the Reserve Bank has permitted banks to use the services of specified institutions as intermediaries for providing banking services. This model has a high potential, however, this scheme has not taken off. Banks need to take the initiative to remove the obstacles that come in the way of an extended use of facilitators and correspondents. Rules, at present, permit not only institutions but also certain category of individuals to function as business facilitators. However, one critical issue in the effective use of this model revolves around as to whom should bear the additional transaction costs resulting form the employment of facilitators and correspondents. There has to be some flexibility with respect to the charging of interest rate. These transaction costs can still be accommodated within the present stipulation that the interest rate charged should not exceed the Prime Lending Rate.

An overall picture of the SHG bank linkage and refinancing in India and its growth based on various reports published by NABARD is given in the Table-1.

Table 1: Progress of SHG-Bank Linkage and Refinancing in India since 1992

(Rs. in Crore)

[redacted]

1995-96	2635	4757	3.62	6.06	3.53	5.66
Growth	(75.43)	(124.17)	(102.29)	(148.36)	(111.37)	(165.72)
1996-97	3841	8598	5.78	11.84	4.99	10.65
Growth	(45.76)	(80.74)	(59.66)	(95.37)	(41.35)	(88.16)
1997-98	5719	14317	11.92	23.76	10.74	21.39
Growth	(48.89)	(66.51)	(106.22)	(100.67)	(115.23)	(100.84)
1998-99	18678	32995	33.31	57.07	30.67	52.06
Growth	(226.59)	(130.46)	(179.44)	(140.19)	(185.56)	(143.38)
1999-00	81780	114775	135.91	192.98	98.07	150.13
Growth	(337.84)	(247.85)	(308.01)	(238.14)	(219.75)	(188.37)
2000-01	149050	263825	287.89	480.87	244.85	394.98
Growth	(82.25)	(129.86)	(111.82)	(149.18)	(149.66)	(163.09)
2001-02	197653	461478	545.47	1026.34	395.26	790.24
Growth	(32.60)	(74.91)	(89.47)	(113.43)	(61.42)	(100.07)
2002-03	255882	717360	1022.33	2048.67	622.47	1412.71
Growth	(29.46)	(55.44)	(87.42)	(99.60)	(57.48)	(78.76)
2003-04	361731	1079091	1855.53	3904.20	705.44	2118.15
Growth	(41.36)	(50.42)	(81.50)	(90.57)	(13.32)	(49.93)
2004-05	539365	1618456	2994.26	6898.46	967.76	3085.91
Growth	(49.10)	(49.98)	(61.36)	(76.69)	(37.18)	(45.68)
2005-06	620109	2238565	4499	13397.46	1067.72	4153.63
Growth	(14.97)	(38.31)	(50.25)	(94.20)	(10.32)	(34.59)
2006-07	1105749	2894505	6570	12366.49	1292.86	5446.49
Growth	(78.31)	(29.30)	(46.03)	(-7.69)	(21.08)	(31.12)
2007-08	1227770	3625941	8849.26	16999.9	1615.50	7061.99
Growth	(11.03)	(25.26)	(34.69)	(37.46)	(24.95)	(29.66)
2008-09*	807905	-	4585.45	-	2620.03	9682.02

Source: *RBI (2008-09) – Hand Book of Statistics on the Indian Economy.*

Note: 1. The figures within parenthesis indicate percentage of Growth
2. * Data for 2008-09 are provisional.
3. Data relates to Commercial Banks, RRBs and Co-operative Banks
4. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnajayanti Gram Swarozgar Yojna' (SGSY) SHGs and existing groups receiving repeat loans. Owing to this change, NABARD discontinued the publication of

data on a cumulative basis from 2006-07.

4. Figures for 2006-07 and 2007-08 are outstanding number of SHGs and outstanding bank loans to SHGs as on 31 March of respective years.

Overall Progress under Microfinance during 2006-07 to 2008-09 is depicted in table -2.

Table 2: Overall Progress under Microfinance during 2006-07 to 2008-09

(Amount Rs. Crores)

[redacted]

Note : Actual number of MFIs provided with bank loans would be less as several MFIs have availed loans from more than one bank

In 2009, total number of 42,24,338 SHGs were having outstanding bank loans of Rs. 22,679.85 crore as against 36,25,941 SHGs with bank loans of Rs. 16999.90 crore in 2008 with a growth rate of 16.5 percent (No. of SHGs) and 33.4 percent (Bank Loan outstanding with SHGs). The share of SHGs under SGSY was 9,76,887 SHGs (23.1 percent) with outstanding bank loans of Rs. 5,861.72 crore (25.8 percent) as against 6,16,978 groups (25.2 percent) with outstanding bank loans of Rs. 4,816.87 crore (28.05 percent) as on 31 March

2008. The agency-wise position of outstanding bank loans to SHGs for the years 2007-08 and 2008-09 is given in Table 3.

Table 3: Bank Loan outstanding against SHGs – Agency-wise Position

(Rs. in crore)

Agency	Year	Total Bank Loan outstanding against SHGs as on 31 March 2008				Per SHG bank loan Outstanding (Rupees)	Out of Total : Bank loan outstanding against SHGs under SGSY	
		No. of SHGs	% Share	Amount	% Share		No. of SHGs	% Share
Commercial Banks Public &Private Sector	2007-08	2378847	65.6	11475.47	67.5	48,240	638283	3225.92
	2008-09	2831374	67.1	16149.43	69.6	57,037	645145	3961.53
	growth	19.0		40.7		18.2	1.1	22.8
Regional Rural Banks	2007-08	875716	24.2	4421.04	26	50,485	223191	1332.33
	2008-09	977834	23.1	5224.42	23	53428	258890	1508.1
	growth	11.7		18.2		5.8	16.0	13.2
Cooperative Banks	2007-08	371378	10.2	1103.39	6.5	29,711	55504	258.62
	2008-09	415130	9.8	1306	5.8	31,460	72852	392.09
	growth	11.8		18.4		5.9	31.3	51.6
Total	2007-08	3625941	100	16999.9	100	46,884	916978	4816.87
	2008-09	4224338	100	22679.85	100	53,689	976887	5861.72
	growth	16.5		33.4		14.5	6.5	21.7

Source: *Status of Micro Finance in India 2008-09, NABARD*

Note: The Growth figures are in percentage

It is clear that Commercial Banks had the maximum share of outstanding bank loans to SHGs with a share of 67.1 percent followed by RRBs with a share of 23.1 percent and Cooperative Banks with a share of 9.8 percent. The average bank loan outstanding per SHG had increased from Rs. 46,884 in 2008 to Rs.53,689 in 2009. It varied from as high of Rs. 57,037 per SHG in case of Commercial Banks and as low of Rs. 31,460 per SHG in case of Co-operative Banks during 2009.

To motivate and assist members of matured SHGs to take up income generating activities on a sustainable basis, NABARD continued to promote Micro-Enterprise Development (MEDP) by SHG members. Under the MEDP, 394 such programmes covering 9,182 SHG members were conducted during the year. The pilot project launched during 2005-06 for promotion of micro-enterprises among members of matured SHGs, is being implemented in nine districts across nine

States involving 14 NGOs acting as 'micro-enterprise promotion agency' (MEPA). Cumulatively 2,759 micro-enterprises were established under the project involving bank credit of Rs.237.72 lakh in 2008. NABARD also supported three exhibitions of products prepared by various SHGs for grant assistance of Rs.3.85 lakh during 2007-08.

Overall Progress under SHGs-Bank Linkage Programmes in the recent years is given in table 4

Table 4: Overall Progress under SHGs-Bank Linkage Programmes

(Amount in Crore Rs. & numbers in Lakhs)

	Particulars	2009-10		2010-11	
		No. of SHGs	Amount	No. of SHGs	Amount
SHGs savings with banks	Total number of SHGs	69.53 (13.6)	6198.71 (11.8)	74.62 (7.3)	7016 (13.2)
	Of which SGSY Groups	16.94 (12.5)	1292.62 (-17.3)	20.23 (19.4)	1817.12 (40.6)
	Percentage of SGSY Groups to total Groups	24.4	20.9	27.1	25.9
	All Women SHGs	53.10 (9.18)	4498.66 (1.46)	60.98 (14.8)	5298.65 (17.8)
	Percentage of Women SHGs	76.4	72.6	81.7	75.5
Loans Dispersed to SHGs	Total number of SHGs extending loans	15.87 (-1.4)	14453.3 (17.9)	11.96 (-24.6)	14547.73 (0.01)
	Of which SGSY Groups	2.67 (1.0)	2198 (9.1)	2.41 (-9.9)	2480.37 (12.8)
	Percentage of SGSY Groups to total Groups	16.9	15.2	20.1	17.0
	All Women SHGs	12.94 (5.8)	12429.37 (18.1)	10.17 (-21.4)	12622.33 (1.6)
	Percentage of Women SHGs	81.6	86	85	86.8
Loans Outstanding against SHGs	Total number of SHGs linked	48.51 (14.8)	28038.28 (23.6)	47.87 (-1.3)	31221.17 (11.4)
	Of which SGSY Groups	12.45 (27.5)	6251.08 (6.6)	12.86 (3.4)	7829.29 (25.2)
	Percentage of SGSY Groups to total Groups	25.7	22.3	26.9	25.1
	No. of Women SHGs linked	38.98 (18.9)	23030.36 (23.9)	39.84 (2.2)	26123.75 (13.4)
	Percentage of Women	80.3	82.1	83.2	83.7

***Source**: NABARD, Status of Micro Finance in India 2010-11:*

Note: Figure in parenthesis indicates Percentage.

Under the microfinance programme total loan dispersed stands about 4.3 billion USD in 2011 with 26.4 million active borrowers. Deposit mobilized was 106.0 million USD with 1.9 million depositors.

Revolving Fund Assistance to MFIs

National Bank for Agriculture and Rural Development (NABARD) selectively extends the Revolving Fund Assistance (RFA) to MFIs for experimenting with various MF models. The RFA provided to these agencies is necessarily to be used for on-lending to SHGs or individuals and the amount is to be repaid along with the service charge within a stipulated period of 5 to 6 years. This enables them to build a 'credit history', which would help them to access credit facilities through the regular banking channels. In addition, to enable rating of MFIs and empowering them to intermediate between the lending banks and the clients, NABARD provides financial assistance to commercial banks and RRBs to avail the services of credit rating agencies for the purpose

During 2007-08, RFA of Rs.806.00 lakh was sanctioned – FWWB (Rs.500 lakh), GRISERV (Rs.25.00 lakh), RBAN (Rs.10.00 lakh), SKDRDP (Rs.200.00 lakh), additional sanction to Post Office, Tamil Nadu (Rs.66.00 lakh), Post Office Shillong (Rs.5.00 lakh). Cumulatively, RFA of Rs 3638.00 lakh was sanctioned to 35 agencies and an amount of Rs.2598.94 lakh has been released against which an amount of Rs.749.96 lakh stands outstanding. The details of agencies having outstanding RFA under MFDEF account are given in Table 5.

Table 5: Agencies having outstanding RFA as on 31st March 2009

(Amount Rs. Lakh)

[redacted]

[redacted]

Note: * Sanction includes amount sanctioned from erstwhile Credit Financial Services Fund (CFSF) and MFDEF. However, the entire outstanding refers to RFA provided under MFDEF.

Sanctions made by the RO under the delegation of powers.

** Included for the purpose of calculating RFA outstanding. WEDA has become defaulter.

Coverage of Women SHGs

The details of total number of women SHGs saving linked, credit linked and loans outstanding for the last two years are given in table - 6. It may be seen that of the total saving linked and credit linked SHGs, exclusive women SHGs saving linked and credit linked with banks were 79.5 percent and 85.4 percent, respectively. Further, the percentage of loans outstanding of exclusive women SHGs to total SHGs which was 78.45 percent as on 31 March 2008 had increased to 81.93 percent as on 31. March 2009.

Table 6: Position of Women SHGs (2008-09)

(Rs. In crore)

[redacted]

Savings of SHGs with Banks

During 2008-09, total 61,21,147 SHGs were having saving bank accounts with the banking sector with outstanding savings of Rs. 5,545.62 crore as against 50,09,794 SHGs having savings of Rs. 3785.39 crore as on 31 March 2008, thereby having growth rate of 22.2 percent and 46.5 percent respectively. Thus, more than 8.6 crore poor households were associated with banking agencies under SHG-Bank Linkage Programme. As on 31 March 2009, the Commercial Banks had the maximum share of SHGs' savings of 35,49,509 SHGs (58%) with savings amount of Rs. 2772.99 crore (50 percent) followed by Regional Rural Banks having savings bank accounts of 16,28,588 SHGs (26.6 percent) with savings amount of Rs. 1989.75 crore (35.9 percent) and Cooperative Banks having savings bank accounts of 9,43,050 SHGs (15.4 percent) with savings amount of Rs. 782.88 crore (14.1 percent). The share under SGSY in the total savings was 15,05,581 SHGs with savings of Rs.1,563.39 crore forming 24.6 percent of the total SHGs having savings accounts with the banks and 28.1 per cent of total savings amount.

The position of agency-wise savings of SHGs with banks during 2008 & 2009 is given in Table 7.

Table 7: Savings of SHGs with Banks – Agency-wise Position (2008-09)

(Rs in crore)

Agency	Position as on	Total SHGs' Savings with the banks as on 31 March 2008 / 2009				Per SHG Savings (Rupees)	Out of Total : SHGs' savings with banks under SGSY	
		No. of SHGs	Percentage Share	Amount	Percentage Share		No. of SHGs	Amount
Commercial Banks (Public & Private Sector)	31.03.08	2810750	56.1	2077.73	54.9	7392	765775	527.02
	31.03.09	3549509	58	2772.99	50	7812	931422	681.6
	growth	26.3		33.5		5.7	21.6	29.3
Regional Rural Banks	31.03.08	1386838	27.7	1166.49	30.8	8411	357004	210.83
	31.03.09	1628588	26.6	1989.75	35.9	12218	433912	774.55
	growth	17.4	70.6			45.3	21.5	267.4
Cooperative Banks	31.03.08	812206	16.2	541.17	14.3	6663	80291	71.66
	31.03.09	943050	15.4	782.88	14.1	8302	140247	107.24
	growth	16.1		44.7		24.6	74.7	49.7
TOTAL	31.03.08	5009794	100	3785.39	100	7556	1203070	809.51
	31.03.09	6121147	100	5545.62	100	9060	1505581	1,563.39
	growth	22.2		46.5		19.9	25.1	93.1

Source: *NABARD Status of Micro Finance in India 2008-09*

Note: the Growth figures in Percentages

The average savings per SHG with all banks had decreased from Rs 8,469 during 2006-2007 to Rs. 7,556 during 2007-08. It varied from high at Rs. 8,411 per SHG with RRBs to low at Rs.6,663 per SHG with Co-operative Banks. As on 31 March 2008, the share of women SHGs in the total SHGs with saving bank accounts was 39,86,093 SHGs forming 79.56 percent as compared to last year's share of 78.63 percent.

Bank Loan Disbursed to SHGs

During 2008-09, the banks financed 16,09,586 SHGs, including repeat loan to the existing SHGs, with bank loan of Rs. 12,253.51 crore as against 12,27,770 SHGs with bank loan of Rs. 8,849.26 crore during 2007-08 registering a growth rate of 31.1 percent (No. of SHGs) and 38.5 percent (Bank Loan disbursed). Out of the total loans disbursed during 2008-09, SHGs financed under SGSY were 264,653 (24.6 percent) with bank loan of Rs. 2015.22 crore (28.2 percent) as against 246,649 SHGs (20 percent) with bank loan of Rs. 1857.74 crore (21 percent) during 2007-08.

The details of agency-wise loans disbursed by banks to SHGs during 2007-08 and 2008-09 are given in Table 8.

Table 8: Bank loans disbursed to SHGs-Agency-wise for the years 2007-08 and 2008-09

(Amount Rs. crore)

[redacted]

Note: The Growth figures are in percentages

Conclusion

The financial system in India has grown rapidly in the last three decades and more. Inclusive growth policy provides immense scope for the reform of the financial sector towards rural development. Financial inclusiveness in India has been the trend since independent and is clear from the fact that we have expanded institutional net work with multi agency approach. From every Five year Plan it is visible that encouragement for including rural people in the main stream of economy was the major agenda. But achievements are not up to the expectations due to various reasons.

Now after new economic policy of 1991, things have changed. Money and banking activities underwent changes tuning with the new environment. This made us to feel that there is a need to modify the credit delivery system of the banks and other related institutions to meet the credit requirements of marginal and sub-marginal farmers in the rural areas in a fuller measure in the changed environment. And microfinance activities are doing well but major areas of our country are to be included in it.

At least, one branch of the lead bank at the micro level can be designated as a nodal branch to address the issue of exclusion. These branches need to be strengthened with technical staff for provision of developmental services in the farm and non-farm sectors. All banks could make use of the advice provided by such branches.

There is need for the simplification of the procedures in relating to granting of loans to small borrowers. In some cases, enabling legislations have to be passed. Stamp duty exemption for loan documents relating to small borrowings is also needed. On the whole, simplified document for the grant of small loans need to be evolved.

Credit retailing policy may be used to include vulnerable sections of the society. Rural poor, small and marginal farmers, women both in rural and urban areas need to be target of financial services. That would make those sections of the society more productive entrepreneurs.

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Amartya Sen's Contribution to Human Development

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Abstract

This paper examines the major economic contributions of Amartya Sen, especially in the area of human development. Amartya Sen is an Indian economist and winner of the Bank of Sweden Prize in Economic Sciences in 1998 for his contributions to welfare economics and his work on poverty / famine, human development theory as well as gender aspects in economic development. Since the publication of the first human development report in 1990, the focus of development economics has shifted from national income accounting to people centered policies. According to Sen, the basic purpose of development is to enlarge human freedom. The process of development is to expand human capabilities by expanding the choices that the people have in their full and creative living. People are both the beneficiaries of such development and the agents of the progress as well as the change that they bring about. This process must benefit all individuals equitably and build on the participation of each of them.

Key words: *Amartya Sen Contribution, Capability Approach, Human Development, Approach, Entitlement Approach*

Introduction

Amartya Sen occupies a unique position among modern economists. He is an outstanding economic theorist, a world authority on social choice and welfare economics. He is carrying out path-breaking work on appraising the effectiveness of investment in poor countries and more recently, on the economic analysis of famines. He has greatly influenced the international organizations such as the United

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National Development Organisation (UNDP), International Labour Organisation (ILO) and the World Bank. Over the years, he introduced innovative solutions to help underdeveloped countries to cope with social problems like poverty, famine, gender inequality, human rights and biased liberalism. The Nobel Memorial Prize in Economic Sciences was awarded to him for his work in welfare economics in 1998 and also honoured by the then President of India with the Bharat Ratna in 1999.

Amartya Sen made remarkable contribution to development economics on the one hand and welfare economics on the other. According to him, human development may be regarded as a blend of both Development Economics and Welfare economics. Further, Prof. Sen probed into choice of techniques in development planning and subsequently moved to issues of social welfare including poverty and famines. The Human Development Index (HDI) constructed by the UNDP under the leadership of Mahbub-ul-Haq of Pakistan has derived roots from the writings of Prof. Sen as well as his personal advice to the UNDP. The real wealth of a country is its people and the purpose of development is to create an environment for enabling them to enjoy long, creative and healthy living. He argues that the standard of living of a society should be judged not by the average level of income but by people's capabilities to lead the life they value. He also expressed that commodities should not be valued in their own right but as ways of enhancing capabilities such as health, knowledge, self-respect and ability to participate actively in common life. In this paper the focus is on the analysis and assessment of Amartya Sen's contributions towards human development especially in the areas of human development approach, capability approach, poverty and famine, and social choice theory.

Methodology and Data Sources

The information for the study has been collected mainly from secondary sources. The study is descriptive and analytical in nature. The information was collected from a number of published sources such as various issues of Global Human Development Reports, World Development Reports, South Asian Human Development Reports (MHDRC), issues of Economic Survey and Oxford Publication series.

Amartya Sen and the Human Development Reports

The concept of human development is complex and multidimensional. Human Development Index (HDI) is extensively used to measure the standard of living of a country. HDI is calculated based on three indices – life expectancy to measure longevity, educational attainment to represent knowledge and real gross domestic product (GDP) to represent income. The First Human Development Report (HDR) published by UNDP in association with Mahbub ul Haq and Amartya Sen in 1990 stressed that people are the real wealth of a nation. As stated elsewhere the basic objective of development is to create an environment enabling the people to enjoy long, healthy and creative living. This may appear to be a simple truth, but it is often forgotten in the immediate concern with the accumulation of commodities and financial wealth.

Economic growth is a necessity but not the only condition for the promotion of human development. Beyond quantity, it is the quality of growth that is crucial for human well-being. Growth may be jobless, rather than job creating – ruthless, rather than poverty reducing – voiceless, rather than participatory – rootless, rather culturally enshrined and futureless, rather than environmental friendly. Growth that is jobless, ruthless, voiceless, rootless and futureless is not favourable to human development (Jahan, 2000). In this regard, economic growth is a means of development and not its ultimate goal. Increased income contributes largely if it improves people's life. But income growth is not an end by itself. Development should be people centered and economic growth must be equitable for its benefits to have an impact on people's lives.

Since the publication of HDR, Haq(1995) brought together a group of fellow development economists and friends. Among them the prominent being Paul Streeten and Frances Stewart, who had worked with him on the basic needs approach, Gustav Rains and Keith Griffin his collaborators in Pakistan and many others including Sudhir Anand and Meghnad Desai, who had creative expertise in quantitative methods of measuring economic development. But it was Sen's work on capabilities and functions that provided the strong conceptual foundation for the new paradigm in the economic development. His approach defined human development as the process of enlarging a persons functionings and capabilities to function, and the range of things that a person could do, as expressed in the HDRs as expanding choices (Amartya Sen, 1989).

Various Dimension of Amartya Sen's Contribution

Prof. Amartya Sen, one of the world's most popular and influential intellectuals made tremendous contributions in the field of economics, and is more specialized in the area of Welfare Economics and Development Economics, which come under Human Development disciplinary. Hence, here is an attempt to discuss various dimensions of Amrtya Sen's contributions.

Human Development Approach

Sen would continue to influence the evolution of the human development approach, refining and broadening the basic concepts and measurement tools as new areas of policy challenges from sustainable development (HDR, 1994) to gender equality, poverty, consumption and sustainable development, human rights and democracy (UNDP, 2002). In turn, the HDRs have paralleled Sen's own work on freedom, participation and agency, incorporating more explicit references to human rights and freedom. With Anand Sen also played a critical role in developing the measurement tools of human development, starting with the Human Development Index covering issues such as gender equality. Further, they also developed the Gender-Related Development Index (GDI) and the Gender Empowerment Measure (GEM, 1995). They suggested the measurement of poverty in human lives through the human poverty index rather than their income (UNDP, 1997). Thus, Sen helped to develop the initial conceptual framework and measurement tools used in the HDRs. But the reports carried Sen's work even further as they explored the policy implications of this development approach in areas that are of major contemporary significance.

Capability Approach

Amartya Kumar Sen has defined the development in term of an expansion in capabilities and 'entitlement'. Capabilities refer to what a person can (not) do or can (not) be. Freedom from hunger, being free to participate in the political process, being adequately sheltered, and access to health and education etc., can be quoted as different manifestations of capabilities. In this context, it will be essential to remember that capabilities are generated by 'entitlements' of an individual (within a society), which is measured not simply as income, but rather as the bundle of rights and opportunities available to an individual. These two together, thus imply, both the available choice set and also the capacity to exercise their right over the choice set. Needless to add, the greater is the capability and entitlements of individuals in a society, the higher is the level of development of that society. (Sen. 1989)

Development according to Sen is the quality of life in terms of capability expansion. That is the expansion of valuable capabilities – broadening of the set of valuable beings and doings an individual can achieve. Development is the freedom to achieve valuable doings and beings (Functionings). Functionings are ends of human life and they can also be means to human life. Functionings are parts of a person's state of being or doings in leading a good life. Capability gives the combinations of functionings achievable by an individual. It is a set of functioning that reflects the freedom of an individual to make choices of possible livings desired by the individual. Capabilities include endowment, individual capacity and social opportunity that in turn have impact on capability.

Sen's 'capabilities approach' explains development as freedom and 'capability to function'. That is "what we can do with what we have". Sen's approach indicates three core values of development, which are sustenance - the ability to keep individual alive- self-esteem and freedom from servitude and poverty. According to Sen, freedom is the matter but there is an implication that the means of having the freedom may not matter. Sen's notion of development as capability expansion has been criticized (Dizilbash 1996), For example, the capability expansion may include impoverishment of some lives and can be achieved through vicious means. The ways in which expansion of capabilities are achieved may be objected to partly because the means may be anti-social. That is, the means of achieving objectives are important and should be considered, just as well as the ends. Sen does not seem to take this into consideration. Sen neglects incorporating negative freedom into his analysis.

Different cultures within different contexts may provide different conditions for functioning and developing capabilities. What is regarded as correct functioning may not be the same in some cultures; since functioning may differ from culture to culture. Values cannot be measured and so cannot be compared. In discussing development in terms of expansion of capability it is not possible to say anything about development when expansion or contraction in capability occurs in a given situation. This is partly because one's capability cannot be compared with that of another person's. Interpersonal comparison of capability is not possible. We cannot also compare one's loss with that of gain of capability, since capability is not measurable.

Poverty and Famine

'Poverty and Famine' is one of the most important works of Amartya Sen as highlighted in his one of the best ever remembered books "An Essay on Entitlement of Deprivation published in 1981. In this work he demonstrated that famine occurs not only from lack of food, but also from inequalities in the mechanisms for distributing food. Sen's interest in famine stemmed from personal experience. As a nine-year-old boy, he witnessed the Bengal famine of 1943, in which three million people perished. Sen not only focused on famine occurred in Bengal in 1943 but also studied such situations in various countries such as Bangladesh, Ethiopia, Korea, Sahara, China etc. According to him, the absence of sustained entitlements for portions of society resulting in inadequate command of real purchasing power to buy subsistence in the market is the chief cause of famines affecting large number of poor people.

He concluded that there was an adequate food supply in Bengal at the time, but particular groups of people including rural landless labourers and urban service providers like haircutters did not have the monetary means to acquire food as its price rose rapidly due to factors that include British military acquisition, panic buying, hoarding, and price gouging, all connected to the war in the region. In 'Poverty and Famine', Sen revealed that in many cases of famine, food supplies were not significantly reduced. In Bengal, for example, food production, while down on the previous year, was higher than in previous non-famine years. Thus, Sen points to a number of social and economic factors for famine, such as declining wages, unemployment, raises food prices and poor food-distribution systems. These issues led to starvation among certain groups in the society. His capabilities approach focuses on positive freedom, a person's actual ability to be or do something, rather than on negative freedom approaches, which are common in economics. In the Bengal famine, rural labourers negative freedom to buy food was not affected. However, they still starved because they were not positively free to do anything. They did not have either the functioning of nourishment or the capability to escape morbidity.

In addition to his important work on the causes of famines, he observed that all the famines are not the result of natural calamities.

According to him, most of the famines of the world are man-made. In most of the cases, famine takes place in one region and food grains are in abundant quantity in another region. In some cases, at the time of the famine, the food grains are exported to another region by the same country. So, most of the famines take place due to lack of mobility of food grains from one place to another, lack of knowledge of information about the food grains, the reluctance and indifference of the government, lack of purchasing power with the poor and downtrodden people, lack of employment opportunities to the poor people resulting in poor income generation and as a result they become unable to purchase good grains.

After the study of the famines in India, China, Korea, Bangladesh, Ethiopia and Sahara, Sen has observed that death of food grains alone has not remained responsible always for food crisis. In the 1974, Bangladesh faced a famine, due to nation-wide flood situation, and the consequent increase in the prices of food grains. At the same time, as a result of the damage of one crop the agricultural labourer also lost the employment opportunities. Due to lack of purchasing capacity this class became prey to hunger and death in the famine such kind of famine was faced by China in 1958-61 in which about 1. 16 to 3 crores of people died. On the basis of this data, it was considered to be the biggest famine in the history of mankind.

Various thinkers made some comments on the real and monetary factors during the famine. Sen has an interesting reference to Malthusian analysis of the rise in food prices and their effects on the poor and on the other classes. In the case of Malthus, diminishing returns were occurring in food grains production and there was no monetary inflationary factor. The relative prices of grains were going up because of the rise in the money supply and real costs of agricultural production.

The Entitlement Approach

Entitlements approach has been defined as the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she faces. It should be noted that this is a descriptive rather than normative concept. The entitlements are derived from legal rights rather than morality or human rights (Sen, 1981). He concludes that the poverty and the famine stands between food availability and food entitlement. Starvation deaths can reflect legality with a vengeance which is clearly something odd at best and uncomfortable at worst, defective with an analytical approach that appropriates a normative term like entitlement and scrips it of all ethical connotations. In Sen's framework, people-destitute by famine, are not entitled to food instead they are entitled to strive. Despite its normative connotation, entitlement does not reflect in any sense a concept of the right to food (Edkins, 1996). The Entitlement Approach is based on three conceptual categories such as Endowment Sets, Entitlement Set and Entitlement Mapping.

The Endowment Set is defined as the combination of all resources legally owned by a person. In this definition, resources include both tangible assets such as land, equipment, animal etc and intangibles such as knowledge and skill, labour power, membership of a particular community etc. Furthermore, the word 'legally' has to be interpreted broadly to mean conforming to established social norms and practices and not merely to what is sanctioned formally by the state.

The Entitlement set is defined as the set of all possible combinations of goods and services that a person can legally obtain by using the resources of his endowment set. The use of the resources to get final goods and services may be either in the form of production, exchange or transfer. The Entitlement Mapping, called E-mapping, is simply the relationship between endowment set and entitlement set. It is the rate at which the resources of the endowment set can be converted into goods and services included in the entitlement set.

According to Sen, famine is caused due to shortage of food and also due to failure of entitlement. A person suffers from failure of food entitlement when his entitlement set does not contain enough food to enable him to avoid starvation in the absence of non-entitlement transfers, such as charity. Thus famine occurs, since entitlement set is derived by applying E-mapping on the endowment set, due to the entitlement failure and thus famine can occur only through some adverse change either in endowment or E-mapping or both. Thus, there are two types of famines – one is caused due to change in endowment and the other due to change in E-mapping. The analysis of famine can also be done in a slightly different manner. As we know that E-mapping consists of three different kinds of relations such as production, exchange and transfer, we can distinguish four types of famines caused due to endowment loss, failure of production, exchange failure and transfer failure.

Social Choice Theory

Amartya Sen highlighted Arrow's Theory of Impossibility of Social Choice in his famous book by name 'Choice and Social Welfare' in 1970. The theory should aim at establishing the need for equitable distribution arrangements in the initial status of human beings in the society. In their absence, equality in opportunities has no meaning. The equitable distribution arrangements have to be decided on the basis of universally, or near universally, acceptable ethnical norms or rules for the functioning of society. The rule that the social choices should give the greatest weight to the lowest status of societies as propagated in Rawls Theory of Justice in 1971, is also favoured by Prof. Sen.

Social choice theory, broadly speaks on with the interrelationship between the choices of individuals and collective decisions. Kenneth Arrow has also forward a mathematical result under a set of conditions. The Choice of Technique of Amartya Sen constitutes an important contribution to the analytical underpinning of development planning and cost-benefit analysis. Sen explicitly considers a balance between employing many people today and employment tomorrow, a problem concerned with the welfare of the present generation and its, labour force as well as that of future generations. Infact, Sen's doctoral work on “Choice of Techniques” was successfully completed under the supervision of Joan Robinson in 1950s was exclusively focused on developing countries that had high levels of unemployment and underemployment. When these countries attempted to strike a balance between alternative techniques, capital intensiveness and employment.

Conclusion

This paper has analysed the contributions of Amartya Sen in the field of human development. Sen, who won the noble prize for economics in 1998 and prestigious award of Bharath Rathna in 1999 has been considered to be one of the world's most important and influential intellectual thinkers. He was popularly known as the 'Mother Teresa of Economics' for his work on famine, human development theory, welfare economics and the underlying mechanisms of poverty, gender inequality and political liberalism. As he observes that, people are the real wealth of nations, the basic purpose of development is to enlarge human freedoms. The process of development can expand human capabilities by expanding the choices that people have for full and creative living. Development is about removing the obstacles such as illiteracy, ill health, lack of access to resources or lack of civil and political freedoms. He demonstrated that famine occurs not only due to lack of food, but also due to inequalities built in the mechanisms for distributing food.

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