MICROFINANCE, SOCIAL PROTECTION AND POVERTY: CHALLENGES AND OPPORTUNITIES FOR SERVICE DELIVERY IN INDIA

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Microfinance, Social Protection and Poverty: Challenges and Opportunities for Service Delivery in India

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Abstract

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Doctor of Philosophy in the Faculty of Humanities

MICROFINANCE, SOCIAL PROTECTION AND POVERTY: CHALLENGES AND OPPORTUNITIES FOR SERVICE DELIVERY IN INDIA

2010
Poverty is an extremely significant issue for Indian society with some estimates suggesting that up to 75% of the Indian population may be poor and deprived of basic necessities to sustain a normally healthy life. Microfinance and social protection are considered as important micro-level strategies to reduce poverty. Literature reveals that both strategies suffer from significant service delivery constraints causing exclusion of a large majority of poor households from access to microfinance, and inclusion and exclusion errors and elite capture of social protection programmes. This research explored whether outreach of microfinance and impact of social protection may be enhanced if microfinance products are built on the provisions of social protection for the poor households, and services of microfinance and social protection are synergistically delivered leveraging on the strengths of each other. The research further explored if it is feasible to employ a State institution, India Post, towards such synergistic service delivery. In order to further these research objectives, financial needs of poor households were estimated, and structures and mechanisms causing the exclusion of the poor from microfinance were investigated, by drawing empirical data from three Indian states. States were sampled while acknowledging that the poor are largely excluded from microfinance in two states of UP and Gujarat, and are almost totally included in the state of AP. This provided me with an opportunity to identify structures and mechanisms excluding the poor from microfinance provisions in UP and Gujarart, and contrast it with the situation in AP to further refine and enrich our understanding.

Philosophical basis for design and methodology for this research is provided by critical realism, according to which the goal of social research is to understand the world in order to change it for better. The research is primarily based on the data collected through qualitative research methods as such methods are more suited than quantitative methods to critical realistic intensive studies, attempting to uncover underlying structures and mechanisms causing a social phenomenon.

Research findings suggest that the financial needs of poor households in UP and Gujarat either remain unmet, or are met through informal mechanisms which are costly and exploitative. Poor are also not able to entirely access their entitled benefits from social protection programmes; as such programmes generate their own financial needs, which remain largely unmet. It was observed that social protection programmes have a favourable political environment in India and are being increasingly employed as a means to fight poverty. Such programmes therefore constitute an important aspect of the financial environment of the poor. Microfinance programme in AP reaches the poor partly because it is also meeting the financial needs generated by the provisions of social protection and thus the poor households find it useful. Poor also become attractive clients for microfinance due to the assured benefits they receive from the social protection programmes. Thus it addresses both demand and supply side constraints which keep a majority of the poor out of the ambit of microfinance in UP and Gujarat. Such social protection-linked service delivery of microfinance was further observed to be enhancing the impact of social protection as well as of microfinance.

It is further argued that India Post is suitably located to deliver such social protection-linked microfinance services due to its close proximity to the rural population, and its personnel being known to and trusted by the local communities. India Post network also has a long and rich experience of delivering financial services. Being a government department, it is in a better position than similarly placed agencies such as banks and NGOs, to coordinate with other government departments offering social protection. Moreover, it has a valuable information-capital on the households that can be leveraged to efficiently identify the prospective recipients of the social protection programmes.
Declaration

I hereby declare that no portion of the work referred to in this thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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Anurag holds M.Sc. degree in Physics and M.A. degree in Economics.

Following works have been published/accepted for publication based on this research:


Priyadarshee, A., 2010. Microfinance product development for the poorest: A theoretical framework, and empirical observations from India. Paper presented at the *Third International Conference on Microfinance*, Pondicherry University, India, 22-24 January 2010. This paper has been accepted to be published in a book to be brought out by the Pondicherry University.


Anurag has also reviewed submissions to International Journal of Public Administration.
Chapter 1

Introduction: Research description

1 Context

1.1 Poverty

Poverty is normally defined in the context of economic, material, social, and political conditions of a human being or a household. A person is considered as poor if she fares below the minimum standards generally agreed upon in any or all the planes of such conditions. There is however no universally accepted definition of poverty as it ‘affects many aspects of the human condition, including physical, moral, and psychological’ (Blackwood and Lynch 1994: 568). Piachaud (1981: 421) suggests that the term ‘poverty’ ‘carries with it an implication and moral imperative that something should be done about it’.

1.2 Microfinance and poverty

Microfinance broadly refers to the practice of the supply of microcredit, savings, remittance, microinsurance, and other basic financial services to the poor (CGAP 2003). Formal financial systems, the world over, evolved in such a way that they did not cater to the poor. The poor had to therefore develop a multitude of informal, community-based finance mechanisms and structures to meet their financial needs. Over the last few decades, a number of formal sector organisations (non-government, government, and private) have also come up for the purpose of meeting the financial needs of the poor. Microfinance as a term encompasses such informal and formal arrangements offering financial services to the poor (Brau and Woller 2004).

An ever growing body of literature reveals that microfinance is one of the most important tools for poverty reduction (e.g. Imai et al. 2010; Armandariz de Aghion and Morduch 2007; Hossain 2003; Seibel 2001; Morduch 2000; Yunus 1998; Rutherford 1998; Hulme and Mosley 1996). The Planning Commission of India (2007: 6) also notes that ‘technology and finance hold the key to ameliorate poverty’.

1.3 Social protection and poverty

According to Avato et al. (2009: 456), social protection ‘includes interventions and initiatives that support individuals, households, and communities in their efforts to prevent, mitigate, and overcome risks and vulnerabilities, and that enhance the social status and rights of the
marginalized’. Social protection evolved in the late 1980s and early 1990s in low-income countries as a comprehensive set of programmes to respond to multidimensionality of poverty (Sabates-Wheeler and Devereux 2008). The speed with which social protection programmes have been scaled up in the low-income countries over the last decade is unprecedented. Barrientos and Hulme (2008: 327) estimate that the programmes in force may have a combined capacity to reach half a billion people in poverty and have the potential to significantly reduce global poverty.

Barrientos and Hulme (2008a: 19) mention that social protection has now ‘become one of the three main elements of national development strategies, with growth and human development’. What makes them different from the earlier poverty alleviation and development programmes is that they are ‘focused on the poor and the poorest’ (Barrientos and Hulme 2008: 328).

1.4 Poverty in India

Most popular and often used measurements of poverty involve estimating a minimum income level to define a poverty line and considering an individual earning less than that income as poor. Poverty lines in many countries including India are still largely based on a rather limited subsistence conception of poverty (e.g. Rowntree 1941; 1902). In India, the official estimates of the poverty line are largely based on an Indian Council for Medical Research (ICMR) - specified norm of intake of 2400 calories per capita per day for rural areas and 2100 calories per capita per day for urban areas. Accordingly, the poverty line for India is estimated to be INR 356.30 for rural areas and INR 538.60 for urban areas for the year 2004-05. Based on these criteria, as many as 301.72 million people, i.e. 27.05% of the total population in India, were found to be living below the poverty line (Planning Commission 2007a). The number of poor people may however be substantially higher, as high as 75% of the total population (India Watch 2006; George 2005), if the World Bank criterion of US$ 1 per capita per day is applied to determine the poverty line.

1.5 Microfinance in India

The microfinance in India is presently delivered through the following two broad mechanisms: (a) Microfinance Institutions (MFIs), which may be Non Governmental Organisations (NGOs), or Non Bank Finance Companies (NBFCs); and (b) Self Help Group (SHG)-bank linkage.

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1 Indian Rupee (INR). 1 U.S. Dollar = 46 INR (approximately).
Studies reveal that both the mechanisms suffer from inherent structural deficiencies (Bhatt and Tang 2001; ADB 2000; Morduch 2000; Madajewicz 1999; Mahajan et al. 1998; Chao-beroff 1997) and are not reaching poor and those living at remote places in the country (Ghate 2007; EDA Rural Systems and APMAS 2006; EDA Rural Systems 2005). According to different estimates, microfinance covers less than 33% of the poor households in India in its present dispensation (Asher and Shankar 2007; Ghate 2007; Bhatt 2006; Menon 2005).

1.6 Social protection in India

Various aspects of social protection constituted an important part of the agenda of the Indian Freedom movement and the government of newly-independent India initiated several social protection programmes. Such programmes were considerably scaled up and new programmes were initiated in the late 1960s and early 1970s in response to various natural calamities, droughts and food shortages during that period. Next phase of spurt in social protection was witnessed in the later half of 1990s, when it was realised that the gains from economic reforms and increased globalisation of Indian economy were largely bypassing a large section of the society. Results of the 2004 general elections were largely seen in political and media circles as the rejection of ruling coalitions’ policies focussing more on economic growth and less on reducing poverty and inequality (e.g. Breman 2010) despite some analysts such as Panagariya (2008) arguing otherwise. The new government therefore committed itself to the ‘growth with human face’, scaled up various social protection programmes and launched new programmes such as an ambitious National Rural Employment Guarantee Programme (NREGP).

1.7 Social protection and microfinance in India: Service delivery challenges and post-offices

Social protection programmes constitute an increasingly important aspect of the financial environment for the poor households in India. Some such programmes involve direct transfer of cash to the poor households, while the others facilitate them to address their basic needs concerning food, housing, healthcare and education. The efforts to financially include them through microfinance or otherwise may therefore be more successful if these are linked with various social protection programmes aiming to reduce their poverty in multiple ways. Such linkages may also induce a positive feedback mechanism into these programmes and substantially improve efficiency of their delivery. Moreover, microfinance and social protection both constitute micro-level responses to the persistence of poverty and deprivation. Thus if these two strategies working for common purposes converge, the outcomes and
impacts they seek to achieve may get stronger and more efficient. This research tests this theoretical proposition empirically.

Literature reveals that service delivery constraints constitute a significant part of the reasons for microfinance not reaching the poor (e.g. Brau and Woller 2004; Bhatt and Tang 2001; Morduch 2000; Dunford 2000; Hulme 2000; ADB 2000). Lack of efficient service delivery mechanisms due to low levels of institutional development is also seen to be a major obstacle towards effective administration of the social protection programmes in the low-income countries (e.g. Barrientos and Hulme 2008; Barrientos 2007; Barrientos and Lloyd-Sherlock 2002; van Ginneken 1999; Burgess and Stern 1991). In this perspective, this research further explores whether the State-owned network of post-offices (India Post) can be a suitable vehicle to achieve such convergence of microfinance and social protection in rural areas, and contribute to financial inclusion of a large number of currently excluded poor households while improving the efficiency and effectiveness of the delivery of social protection programmes.

1.8 India Post

India Post is the biggest postal network in the world, having about 155,000 outlets, majority of which are in rural areas. Through a unique model of its rural branches, run by personnel drawn from the local communities, India Post has been providing mailing and financial products (including small savings, life insurance, and remittance products) to even the remotest and most backward areas. This combined with the fact that in many small villages post-office is the only government agency; it has traditionally enjoyed trust and confidence of local people and is highly accessible to all the sections of the society. Rural Finance Access Survey (World Bank 2004, cited Basu and Srivastav 2005) shows that post-office branches in India have closest proximity (2 km on average) to rural clients compared to branches of commercial banks, regional rural banks, and cooperatives (5 km on average). Post-offices are also in a position to identify and cater to each and every household in all the villages, however remote.

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2 In this thesis, State is written with a capital S to differentiate it from the states that refer to provinces within a federal structure.

3 India Post is the corporate nomenclature of the Department of Posts of the Government of India. In this study, therefore, it is also referred to as ‘post-offices’ and sometimes ‘the department’.
The network thrived in the colonial and post-colonial eras but is facing difficulties in the present liberalised economic set-up, where it is expected to earn profits and survive without budgetary support. It has also been losing its ground due to the cheaper and more efficient means of communications such as telephones and internet. This has caused shrinkage of the under-utilised network due to cost cutting measures. It is now being increasingly realised that a significant portion of this important institutional capital of India may be lost forever if its optimal utilisation is not ensured.

2 Aim, objectives, and research questions

The overarching aim of this research in the light of the aforementioned research context was to identify the underlying structures and mechanisms causing the phenomenon of poor being excluded from the practices of microfinance in Indian villages, and explore whether their financial inclusion can be improved by employing a State institution, India Post, to deliver microfinance services leveraging on social protection instruments.

In order to achieve this aim, my research pursued the following objectives:

a. To investigate the causal mechanisms and structures for the existing microfinance practices not including the rural poor households in India;

b. To examine whether such structures and mechanisms on the demand side can be addressed by factoring in the provisions of social protection within the financial environment of the poor;

c. To explore whether such structures and mechanisms on the supply side can be addressed by engaging a State institution, India Post, towards synergising social protection provisions with the service delivery of microfinance programmes.

The following main questions concerning my research thus emerged out of my research objectives:

1. What are the financial needs of the poor in rural areas of India, and how are the poor addressing them?

2. Why are poor excluded from microfinance?

3. How are provisions of social protection affecting financial needs of their recipients?

4. Can social protection-linked microfinance service delivery better reach the poor?
5. Can such linkages improve service delivery efficiency of social protection programmes and enhance impact of both microfinance and social protection?

6. Is a State institution, India Post, suitably located to deliver social protection-linked microfinance services to the poor households in rural areas?

3 Methodological aspects

This research is rooted in a critical realist worldview. Most of the primary data for this research was qualitative in nature and was collected through qualitative interviews and participant observation in two villages each in the states of Gujarat, Uttar Pradesh and Andhra Pradesh. In addition, the policy makers within India Post and the governments of the three states were interviewed to seek the policy perspectives on the empirical observations in the field. Detailed case studies were constructed in case of one household in each of six villages to make a deeper investigation into the crucial issues emerging through the application of the above methods.

Secondary data including reports, records, and documents published by India Post and different microfinance institutions and companies, as well as those available on the internet were studied and analysed to gain insight into the operations and strategies of India Post and various microfinance organisations.

4 Significance of the research

A comprehensive review of the existing literature on microfinance (Brau and Woller 2004) highlights that although the academic research on microfinance is growing fast, it is still not keeping pace with the evolution of the industry. Moreover, a large body of literature points out towards disconnect between microfinance practices and the needs of its clients, especially the poorer ones. While analysing financial management mechanisms of poor households in two states in India, Sinha and Patole (2002) observed that the financial products and services available to them through microfinance mechanisms were not addressing their financial needs. They argued that it would be in the interest of microfinance providers as well as the poor, if the microfinancial products and delivery mechanisms are designed on the basis of more correct assessments of financial needs of the poor. Hasan (2003) points out that understanding the issues concerning financial needs of the poor are crucial for meeting such needs substantially. Arun and Hulme (2003) observe that the first wave of microfinance revolution ignored the demand side concerns, while the second wave seems to be disregarding the issues
related to the supply. They argue that it is essential to strike a balance between demand and supply related aspects to make microfinance relevant and useful to a vast cross-section of the population in the quest for their improved well-being. My research contributes to the knowledge on such crucial determinants of the success of microfinancial practices in reaching the poor and meeting their financial needs.

Social protection measures are increasingly becoming an important constituent of the financial environment of the poor, particularly in the low-income countries and are ‘focussed on the poor and the poorest’ (Barrientos and Hulme 2008: 328). It may therefore be appropriate and timely to explore the synergistic strategies for simultaneous service delivery of microfinance and social protection by leveraging on the strengths of each other to enhance their combined poverty-reducing impacts. There has been very little research in this area. This thesis seeks to contribute to knowledge in this area within the literature on poverty.

The studies to explore and assess the financial needs and demands of the poor do not seem to be forthcoming in the Indian context despite the fact that more than two-thirds of the poor are yet to be targeted through microfinance. Arun et al. (2006) in a study investigated the ‘key constraints and challenges to better financial access for the rural poor such as examining the need for better institutions, and new products and technology’ in India. The study indicated towards ‘continuing financial exclusion of many poor people’ and ‘the need of poor people for flexible, easy to access financial services which protect against risk’. My study explores such issues further and makes suggestions and recommendations for enhanced financial inclusion of the rural poor. Additionally, there have been some macro-level studies (e.g. Mahajan and Ramola 1996), but the ‘kind of research that appears to be most needed (in Indian context) is careful field research of the type economic anthropologists do, which is very often the only way of collecting useful microeconomic data on the savings and credit behaviour of poor households and their enterprises’ (Ghate 2007:19). My research attempts to meet this need within the research and literature on microfinance in India.

Much of the research on microfinance is focussed on NGOs, private sector MFIs, and donor agencies. Role of the State agencies in the business of microfinance has not been adequately explored. Moreover, no research seems to have been undertaken on the feasibility of India Post to deliver microfinancial services to rural poor despite the evidence of such potential of India Post (Kugemann 2010; Sharma 2009; Planning Commission of India 2007: 23-25; Basu
and Srivastav 2005; Farrington et al. 2003; World Bank 2003; 2002). This research addresses this gap in the microfinance literature.

An important purpose of this research is to inform the policy of the government of India and the state governments. This research may thus contribute to expand the outreach of microfinance in India while enhancing the efficiency and the impact of social protection delivery if such policy recommendations are accepted. Acceptance of the policy recommendations may also lead to better utilisation of the network capital of post-offices in India and may contribute to strengthening of Indian democracy by making a State institution, India Post, more people-centric and inclusive.

5 Limitations of the research

India is a vast country and its social and regional diversity cannot be even remotely captured in one study. The generalisation of any finding across the whole country may therefore be seen only as a pointer for further study and research. Various constraints on time and resources limited my empirical research to focus only on six villages in the three out of 28 Indian states and seven union territories, and one organisation. The effects of such limitations were however attempted to be minimised by selecting the sample states and villages in such a way that it allowed me to capture varying perspectives, and draw and enrich the inferences by making comparisons. The sample states, for example, represent the sets of states with least, average and highest penetration of microfinance respectively. One of the sample villages in each state has a post-office, and is relatively large having heterogeneous population in terms of social and economic conditions of the households; while the other is relatively small with largely homogeneous population, a majority of which consists of impoverished people, and is without a post-office.

6 Brief outline of thesis

The thesis is planned in seven chapters including the introductory chapter, which outlines the research context and identifies the aim, objectives and research questions. This chapter also describes significance and limitations of the research. The second chapter discusses principal theoretical works and concepts informing this research. It starts with a brief discussion on our current understanding of poverty and its related issues. Potential of microfinance to reduce poverty is discussed and various debates on poverty impacts of microfinance are captured. Importance of the State’s involvement towards enhancing the poverty impacts of microfinance
and thus deepening the democracy is highlighted. Evolution and development of social protection in the context of low-income countries has been mapped and the delivery constraints facing social protection programmes in such countries have been analysed. It has been theoretically argued that it is important to synergise the service deliveries of microfinance and social protection to enhance the poverty impacts of these two micro-level strategies to reduce poverty.

*Third chapter* discusses the philosophical underpinnings of the research, addresses the methodological issues related to the research and describes the methods employed for the data collection and the analysis of the data. *Fourth chapter* scans the available literature to estimate the extent of poverty in India, followed by an analysis of its causal factors. Evolution of financial systems and microfinance in India is traced through various historical eras. Prevalent structures and mechanisms delivering microfinance are analysed and various estimates of microfinance coverage are then discussed. It is argued that the current methods and models delivering microfinance are not adequate to target the poor, and hence it is essential to explore other mechanisms to increase the penetration of microfinance in India. A historical account on social protection in India is presented along with a justification for the social protection programmes selected for this research. Service delivery constraints facing such programmes in India have been captured from the relevant literature. Evolution of the postal system in India is discussed in its historical perspective. Such perspective is further utilised to inform the analysis of the current external environment of Indian postal system and its response to such an environment. It is argued that such response largely ignores 89% of its network located in rural areas, which may be of crucial importance for the service delivery of microfinance and social protection to poor rural households.

Empirical perspectives from the three Indian states and on India Post, emerging out of more than a year-long fieldwork, are presented in the *fifth chapter*. The chapter analyses the financial environment of the poor households in the three states in terms of their livelihood strategies, patterns of expenditure, financial needs and the measures they are adopting to address such needs. It further describes nature and extent of provisioning of microfinance in the three states and captures addressing of financial needs through an extensive provisioning of microfinance in AP, which is then contrasted with the situation in the two other sample states. Coverage of the poor households within various social protection programmes is estimated in the sample villages, which shows that these programmes have become an
important aspect of the overall financial environment of their recipients. The chapter concludes with the analysis of poor households’ perspectives on the suitability of post-offices to be engaged for service delivery of microfinance and social protection, and a detailed investigation into the organisational practices within India Post which give rise to its urban and corporate sector-bias.

**Sixth chapter** analyses the major research findings. Analysis uncovers the underlying structures and mechanisms that are causing exclusion of poor households from the microfinance practices in UP and Gujarat sample villages. Such structures and mechanisms are contrasted with those in AP, facilitating the microfinancial inclusion of the poor to gain a deeper understanding of such causal processes. The chapter further analyses the needs for financial services felt by the recipient households of various social protection programmes. Impact implications of meeting such needs and delivering social protection through microfinancial delivery channels are then analysed in the context of AP sample villages. Analysis of empirical data from AP reveals that such linkages have the potential to deepen the impact of social protection through various mechanisms it gives rise to. The data further demonstrate that such linkages have the potential to include poor within the provisions of microfinance thus further strengthening the poverty-impacts of the two important poverty-reducing strategies at micro levels. The chapter concludes by highlighting the importance of involving India Post towards service delivery of social protection-linked microfinance in the interest of the poor households in India as well as in its own interest.

The **seventh chapter** summarises the analysis of key findings and main arguments of the thesis and fleshes out the policy implications and recommendations for the Indian microfinance industry, India Post, and the national and state governments in India. It is followed by appendices including guide and indicative questions for qualitative interviews, details on social protection programmes selected for this research and financial services currently offered by India Post, and case studies on one household each from the six sample villages. Body of works referred to in this research constitutes the final section of the thesis.
Chapter 2

Poverty, microfinance, and social protection: A theoretical overview

1 Introduction

This research is multi-disciplinary and draws from the disciplines of International Development and Public Administration, and qualitative aspects of Development Economics. Present chapter discusses principal theoretical concepts informing this research. It briefly discusses our current understanding of poverty and its related issues. Potential of microfinance to reduce poverty is then discussed and various debates on poverty impacts of microfinance are captured. Importance of the State’s involvement is highlighted in enhancing the poverty impacts of microfinance and thus deepening the democracy.

Evolution of social protection in the context of low-income countries has been mapped and the delivery constraints facing social protection programmes in such countries have been analysed. It has been theoretically argued that it is important to synergise the deliveries of microfinance and social protection to enhance the poverty impacts of these micro-level poverty reduction strategies.

2 Poverty

Poverty is normally defined in the context of economic, material, social, and political conditions of a human being or a household. A person is considered as poor if she fares below the minimum standards generally agreed upon in any or all the planes of such conditions. However, as Blackwood and Lynch (1994: 568) point out, there is no universally accepted definition of poverty as it ‘affects many aspects of the human condition, including physical, moral, and psychological’. Piachaud (1981: 421) suggests that the term ‘poverty’ ‘carries with it an implication and moral imperative that something should be done about it. Its definition is a value judgement and should be clearly seen to be so…’.

2.1 Absolute poverty

Early studies on poverty and particularly the works of Seebohm Rowntree (1941; 1902) and Charles Booth (1903) largely focused on the subsistence aspects of poverty, according to which an individual is regarded as poor if her real income is not sufficient to ‘obtain the minimum necessaries for the maintenance of merely physical efficiency’ (Rowntree 1902: 86). Rowntree estimated the ‘minimum necessary expenditure for the maintenance of merely
physical health’ for the wage earners of York, England under ‘three heads: food, house rent (including rates), household sundries (all expenditure other than that for food and house rent, the principal items being for boots, clothes and fuel)’ (Rowntree 1902: 87). He expanded his list to include education and leisure time activities in his second survey of 1936 (Rowntree 1941). Poverty line for his third survey was determined by taking into account the minimum expenditure required on food, clothing, household sundries, fuel and light and personal sundries, and was estimated to be £550 (it was £250 in the 1936 survey) a year for a household with a man, woman, and three children below the age of 14 (Rowntree and Lavers 1951). Such estimates assess the extent of absolute poverty and are still used by different governments to measure poverty in their respective countries. There is however no agreement within the governments or outside of them as to what should be considered as adequate levels of incomes and consumptions to maintain ‘physical efficiency’.

The definition of absolute poverty was later expanded by various scholars and agencies such as International Labour Organisation (ILO) to develop what was called as Basic Needs Approach (BNA) that focused on a obtaining a minimum standard of living rather than on maintaining physical efficiency alone. According to BNA, the poor need basic goods and services in addition to the monetary incomes to meet the minimum requirements for leading decent lives. Monetary incomes may not be adequate to ensure supply of required basic goods and services as this also depends on the availability of public goods such as education, health, and water supply services (Stewart 2006). Such definitions of poverty, however, disregard the experiences of the poor and somehow locate the responsibility of being poor within their agency. They offer no insights into the processes that have historically caused, and continue to maintain the conditions of poverty for a large number of people around the world.

2.2 Relative poverty

Approaches to define poverty in absolute terms did not distinguish between actual and perceived needs and therefore between actual and perceived poverty. Understanding of such distinction gave rise to what is called relative deprivation or relative poverty, which is felt because of inequality. According to Townsend (1970: 2), poverty ought to be considered ‘as a general form of relative deprivation which is the effect of the maldistribution of resources’. Thus, poor, according to him, are the people ‘whose resources do not allow them to fulfil the elaborate social demands and customs which have been placed upon citizens of that society: they are materially and socially deprived in a variety of ways which can be observed,
described and measured’ (Townsend 1993: 36). Roach and Roach (1972: 23) therefore suggest that relative poverty in a particular society needs to be measured against a standard applying to ‘the bottom segment of the income distribution’.

The concept of relative poverty originated in the industrialised countries, as it was felt that although the people there were not poor in absolute terms, the development processes causing unequal distribution of wealth kept a significant number of people poorer than the others. In many industrialised countries, therefore, the poverty lines reflect the half of median national incomes. Estimates based on such poverty lines may however end up obscuring the trends of intensification of poverty affecting the entire population (Sen 1983). As an example, ‘a general increase in ill-health due to widespread economic hardship, which leaves a person’s relative position unchanged, must still be seen as intensifying that person’s poverty’ (Sen 1985a: 673).

The two ways of looking at poverty, viz. absolute and relative, also reflect particular political positions. People understanding poverty in absolute terms are generally associated with the right wing politics, as this understanding, in effect, implies that the poverty is not a major issue and thus it requires only a limited response from the state. The relative conception of poverty largely regards it as a structural attribute of a particular society and calls upon the state to engage more extensively to address its structural causes, a position associated with the left wing politics. However, as Spicker (1993) points out, it is not a water-tight compartmentalisation and both leftists and rightists represent the two viewpoints on poverty.

The economic approach to the poverty, as is reflected in absolute and relative poverty concepts, and BNA, is based on general assumptions that dominate mainstream economic thinking such as rationality of economic behaviour, scarcity of resources necessitating their optimum utilization leading to maximisation of utility. The approach is not comprehensive, as it does not adequately acknowledge inequality as ‘a structural determinant of poverty’ (Parasuraman et al. 2003: 8, emphasis in original). Historically, unequal distribution of productive resources such as land and capital, and unfavorable production relations have forced a segment of population to live in poverty. The inequality is further perpetuated and maintained by the inadequacies of labour institutions, insufficient social protection measures, and lack of opportunities to the poor to acquire required skill sets to enable them to adequately participate in the modern production processes. The economic approach is also inadequate to
deal with the issues of vulnerability and provides no tools to identify people/households located above the poverty line but vulnerable to fall below the line with a slight change in their internal or external circumstances. Another aspect of poverty that is not captured by the economic approach is deprivation, ‘which refers to rights and resources that affect people’s quality of life and enables or prevents them (from) participating fully in the society’ (Parasuraman et al. 2003: 9).

2.3 Capability approach
Scope of poverty studies was considerably enhanced by Amartya Sen who put forward a view of poverty as failure to be able to take full part in human society due to lack of choice or capability rather than material living standards alone. Income does matter, in his view, but only as a facilitator of improving opportunities and capabilities, and its effect on individual well-being and capabilities depends on ‘contingent circumstances, both personal and social’ (Sen 1999: 70). Capabilities can be significantly enhanced by public provisioning of services such as health, education, transport, water supply, and sanitation. Sen (1999: 162) further argues that a person’s capabilities depend on her ‘entitlements’, which refer to ‘the commodities over which she can establish her ownership and command’. Entitlements are not only limited to an individual’s commodity bundle (resource endowment), but also depend on their capacity to produce some other commodities through that bundle or exchange it for another bundle through trade (Clark 2005). Sen (1985) argues that poverty reflects lack of entitlements and not merely an inability to access the commodities necessary for survival. It is a state that does not permit freedom of choice.

According to Sen (1985: 10), quality of life of an individual is a function of what s/he is able to be (e.g. literate or illiterate) and do (e.g. do more remunerative or less remunerative work). He refers to such states of being or doing as functionings and argues that they are fundamentally relevant to the assessment of an individual’s well-being. ‘The combination of functionings, or “functionings vector,” that a person achieves constitutes the form of life that the person leads’ (Kaufman 2006: 290). Sen (1994: 40) further defines the capabilities as the various combinations of functionings, or ‘functionings vector’, that an individual can achieve.

4 Dasgupta (1993) has further expanded the concept of human well-being by also including provisioning of civil and political rights within its ambit and by demonstrating that such rights positively correlate with improvements in per capita income, infant mortality and life expectancy.
A person’s capability set is constituted of the different combinations of simultaneously obtainable functionings available to her. Such a set thus reflects ‘the person’s freedom to lead one type of life or another’ (Sen 1992: 40). Assessment of capabilities and not functionings may however be a better representation of the level of freedom enjoyed by an individual, as at any point of time she may choose an inferior functioning in spite of having the capability of attaining a superior functioning.

Capability Approach (CA) has contributed in integrating the absolute and relative concepts of poverty and has much in common with the Basic Needs Approach (BNA). It, however, goes much beyond the economic approaches to poverty, is concerned with the people’s general well-being (Clark 2006), and acknowledges the multi-dimensionality of the poverty issues. The approach also addresses issues relating to inequality, vulnerability and deprivation. At the same time, it is critical of welfare or utility approach, focusing mainly on happiness, pleasure, and fulfilment of desires. Sen asserts that achieving utility, that is, ‘happiness or desire fulfilment represents only one aspect of human existence’ (Sen 1984: 512).

Discourse on poverty has since been significantly influenced by Sen’s theory. According to Clark (2005: 1362), ‘the CA provides a framework with an evaluative space that is broad enough to capture all aspects of human well-being and development’. However, while analysing results of a survey, which sought answers to how ordinary people in South Africa viewed human well-being, he observes that ‘a more extensive list of capabilities is required before Sen’s framework can be used to evaluate well-being’ (Clark 2005: 1362). The framework is generally criticised for using well-being indicators as proxy indicators for capabilities for want of more direct indicators of measuring the capabilities, its focussing primarily on individuals, and the entitlements being ‘primarily configured vis-à-vis the state’ (Parasuraman et al. 2003: 17). Gore (1993: 444) points out that the approach ‘marginalises non-governmental sites of rule-making and rule-enforcing which affect entitlement by either downplaying the role of socially enforced moral rules, or compartmentalising them to the domestic spheres’.

2.4  Social exclusion framework

Social exclusion refers to the processes through which individuals or groups are wholly or partially excluded from full participation in the society in which they live (European Foundation 1999: 4). Social exclusion framework has its roots in French social theory and was
developed around an understanding that the powerlessness of people with respect to their institutions is what creates and perpetuates poverty. Chambers (2001: 299) points out that ‘a multidimensional view of poverty’ requires ‘a multidimensional view of power and [institutional] responsibility’. Social exclusion can manifest as exclusion from democratic and judicial institutions, State development and welfare institutions, market institutions, community and family institutions, or more generally, exclusion from resources, rights, and relationships (de Haan 1998).

Social exclusion framework recognises multi-dimensionality of the poverty problem that has economic, social and political dimensions (Parasuraman 2003). It focuses on the processes, mechanisms and the institutions that exclude people (de Haan 1998), acknowledges institutional responsibility, and thus seeks the solution by bringing about institutional change rather than changes at individual level (Rodgers et al. 1994).

### 2.5 Livelihood framework

A section of recent literature on particularly rural poverty is focusing on the analysis of livelihoods the poor engage in for their survival and to improve their well-being (e.g. Bebbington 1999, Ellis 2000, Dorward et al. 2001). Livelihoods are defined as comprising of ‘the assets (natural, physical, human, financial and social capital), the activities, and the access to these (mediated by institutions and social relations) that together determine the living gained by the individual or household’ (Ellis 2000: 10). ‘[The] concept of livelihood strategies has been developed...to explain the inter-connections between asset portfolios, multiplex strategies of groups and individuals, and outcomes for the welfare of the rural poor (Barrett and Swallow 2005: 16)’.

Livelihood strategies are adopted by the households in response to their asset status, ‘mediated by social factors and exogenous trends or shocks’ (Ellis 2000: 40), and their wider political and economic environment (Dorward et al. 2001). Such strategies are dynamic and change according to the varying opportunities and needs over time (Bebbington 1999). Moreover, different strategies require different combinations of natural, physical, human, financial and social capital (e.g. Baker 1995; Dercon and Krishna 1996; de Janvry and Sadoulet 1996; Reardon 1997). Bebbington (1999: 2021) argues that rural livelihoods need to be analysed and understood in terms of ‘the ways in which people are able to expand their asset bases through
engaging with other actors through relationships governed by the logics of the state, market and civil society; and the ways in which they are able to deploy and enhance their capabilities both to make living more meaningful and to change the dominant rules and relationships governing the ways in which resources are controlled, distributed and transformed in society’.

Within the livelihood framework, poverty is sought to be reduced by improving the sustainability of livelihood mix the poor engage in. A livelihood is sustainable when it ‘can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base’ (Carney 1998: 4). Coping strategies are adopted by the poor in order to maintain minimum levels of consumption when faced with the stresses and shocks. Assets support consumption at two levels. They contribute to overall production and income, and when there is no income, they can be exchanged and/or consumed directly. ‘Asset and livelihood diversification therefore have important consumption smoothing, risk management and productive functions (Dorward et al. 2001: 2)’.

2.6 Dynamics of poverty
Addison et al. (2008) suggest that the research on poverty needs to focus on its dynamics, along with research rooted in multi-disciplinary traditions and on more sophisticated poverty measurement methods, for better understanding of poverty and designing more effective policies to reduce it. According to them, explanatory capabilities of the static analyses of poverty are limited and tend to ignore the more important processes that contribute in sustaining the poverty. According to Clark and Hulme (2005), time was included only as a factor in the earlier accounts of poverty in terms of the trends, seasonality and historical patterns. Trends of poverty provide only statistical information on increase or decrease of poverty in a country between two points of time and do not reveal duration aspects of poverty, i.e., how many households remained poor, and how many moved into or out of poverty during that period. In another approach [e.g. the World Bank’s much acclaimed Voices of the Poor (Narayan et al. 2000)], time is included as one of the dimensions of poverty. Time, in this approach, is a scarce resource (as in Becker 1965) and an individual not having enough resource of time to achieve, say, being with her family and community, sufficient rest after hard work or adequate incomes for her sustenance is considered to be time poor.
Current research on poverty (e.g. Addison et al. 2008; Lawson et al. 2007; Baulch and Davis 2007; Clark and Hulme 2005; Krishna 2004) is increasingly focusing on incorporation of time as the durational aspect of poverty. Such focus helps in building better understanding of what is known as ‘chronic poverty’ referring to condition of ‘people being poor for significant periods of their lives’ and are likely to pass their poverty onto their children’ (Shepherd and Mehta 2006: 23).

Addison et al. (2008) make out a very strong case for according importance to the duration aspect in poverty research on four arguments. Firstly, a person experiencing poverty for a longer duration will need more support to come out of poverty than the person suffering from poverty for a shorter duration. Secondly, inadequate understanding of the distribution of duration of poverty in a population segment will lead to weak analysis of the reasons of the poverty of the people and thus will give rise to inadequate policies. As an example, populations suffering from transitory phases of poverty will require entirely different policy prescriptions to the ones suffering from poverty for very long durations, even when other parameters such as headcount, depth and severity of poverty are similar in the two sets of population. Thirdly, as some recent works such as Carter and Barrett (2006) and Barrett (2005) have demonstrated, at household levels, durations of poverty have linkages with the depth of poverty measured on physical and social asset level indicators. Lastly, the time spent by a household in poverty greatly affects its future strategies, as the persistence of poverty conditions shape a person’s capabilities and her psychological make-up.

Literature demonstrates a strong correlation between poverty and well-being (e.g. Clark 2009; Neff 2007; McGillivray and Clarke, 2006). Various strategies have therefore been designed and implemented to reduce poverty in all parts of the world. Microfinance constitutes one of the important strategies being adopted to reduce poverty particularly in developing countries. The following sections provide a theoretical overview on microfinance, analysis of its poverty impacts and the issues concerning its service delivery.

3 Microfinance

Microfinance broadly refers to the practice of the supply of microcredit, savings, remittance, microinsurance, and other basic financial services to the poor (CGAP 2003). Formal financial systems, the world over, evolved in such a way that they did not cater to the poor. The poor had to therefore develop a multitude of informal, community-based finance mechanisms and
structures to meet their financial needs. Over the last few decades, a number of formal sector organisations (non-government, government, and private) have also come up for the purpose of meeting the financial needs of the poor. Microfinance as a term encompasses such informal and formal arrangements offering financial services to the poor (Brau and Woller 2004).

3.1 How it works

Armendariz de Aghion and Morduch (2007) explain the mechanism of microfinance (more specifically microcredit, which has been a dominant theme in microfinance so far) in the framework of the theory of diminishing marginal returns to capital. According to this theory, the low capital enterprises should be able to generate higher returns in comparison to the highly capitalised enterprises on their investments. The small enterprises should therefore be in a position to pay higher rates of interest than their richer counterparts and attract more investments. Lending to such enterprises however may be risky, as most often there is very little information available on them. Lending to poor enterprises also has an associated additional cost of transactions, as the loan amounts they require tend to be very small. Financial institutions can cover such risks and costs by charging higher interest rates from such small entrepreneurs but that will require an appropriately conducive legal and regulatory infrastructure. Moreover, charging differentiated interest rates may not be easy as it will be difficult to identify and assess risks, and categorise the clients on the basis of individual risk assessments. If the financial institutions increase their overall interest rates then their safer clients will be repelled away from them. In such a situation modern microfinance offers an efficient option to ‘break the vicious circle by reducing the transaction costs and overcoming information problems’ (Armendariz de Aghion and Morduch 2007: 8). This simplistic analysis does not take into account the factors such as role of technology and the economies of scale but does provide a conceptual framework to explain the success of many microfinance programmes across the globe.

4 Poverty and microfinance: An analysis of the performance so far

Opinion of the academic world as well as microfinance practitioners is divided on the issue of employability of microfinance towards reducing the poverty in a substantial way. One school of thought represented by the majority of practitioners and a part of academic world believes that the microfinance is one of the most potent tools for alleviating the poverty. Yunus (1998: 25) asserts that ‘easy access to credit, and easy access to a global network of information for the poorest women and men anywhere in the world will eliminate poverty from our planet
more surely and speedily than anything else’. Yunus (2001) also highlights that the real eradication of poverty begins when people are able to control their own fate. This he believes has been possible through microfinance. Woller and Woodworth (2001) mention that although macroeconomic policies largely determine the success of development strategies of a country, the policies and interventions at micro levels also play an important role in broadening the base and sustainability of the development. It is now widely acknowledged that ‘macroeconomic and microcredit strategies can work in concert to address extreme poverty, reduce human suffering, and empower the poor’ (Woller and Woodworth 2001: 265).

4.1 A dismal picture

Many empirical studies however point out rather dismal performance of the microfinance practices in reducing the poverty so far. According to Hickson (2001), very poor either do not join a microfinance program or if they join at all, they quit it as early as possible. They deliberately avoid engaging themselves with the microfinance programmes as they fear being indebted or are unable to meet the rigid requirements of such programmes. He mentions that some major NGOs of Bangladesh, notably ASA and BRAC, are admitting now that their mainstream programs are unable to attract the poorest in their areas of operations. Mallick (2002) points out that in spite of deep proliferation of microfinance the poverty levels have not decreased in Bangladesh since 1970s. Surveys in India revealed that as many as 49% clients of the Self Help Group bank linkage programme, and 57% clients of the MFIs were non-poor (EDA and APMAS 2006; EDA 2005).

Eversole (2000) observes that traditional credit products being generally offered by MFIs around the world are not suitable for very poor. If an MFI has to make a choice between financial sustainability and reaching the very poor, the choice is often made in favour of the former, as Rahman (1999) found in the course of his study of Grameen Bank borrowers. According to Hulme (2000: 27) MFIs ‘virtually never work with the poorest—the mentally and physically disabled, the elderly, street children, the destitute and refugees’. He further claims that many MFIs, and particularly those in Kenya and Uganda, serve a large number of non-poor, if adjudged on the basis of the official poverty line. These MFIs thus are able to take advantage of economies of scale by advancing bigger loans to the better off among the poor or the non-poor. Such evidence thus prompts many critics to conclude that the MFIs cannot reach the very poor if they strive to be financially self-sufficient (Brau and Woller 2004).
4.2 Evidence indicating positive impacts

Some other empirical evidence suggests that microfinance programmes do have poverty impacts whenever and wherever they reach the poor. Sarangi (2007) assessed the impact of three major microfinance programmes in Madhya Pradesh, India, employing different delivery mechanisms: (i) government supported Swarnajayanti Gram Swarozgar Yojana (SGSY) programme; (ii) NABARD’s SHG-Bank linkage programme in which PRADAN, an NGO, promoted the SHGs; and (iii) the World Bank promoted ‘Swashakti’ SHG programme with participation of state government and local community level organisations. His impact assessment results showed ‘a positive and significant effect of programme participation on increase in the income of the household’ (Sarangi 2007: 24). Imai et al. (2010) analysed the effect of MFIs on household poverty in India, while drawing upon the national level cross-sectional household data set collected in 2001. They found ‘significantly positive’ impacts of microfinance on various indicators of poverty. The study also showed that ‘loans for productive purposes were more important for poverty reduction in rural than in urban areas’ (Imai et al. 2010: 1). In urban areas, significant poverty reducing effects were noticeable even when a household had an access to an MFI but did not obtain a loan.

While studying the economic impact of Grameen Bank, Hossain (1988) demonstrated that the clients of Grameen Bank had been able to accumulate more capital assets than the people outside the Bank. Participation in Grameen Bank programmes also had a positive impact on the incomes of the clients. ‘Grameen Bank members had incomes about 43% higher than the target group in the control villages, and about 28% higher than the target group nonparticipants in the project villages’ (Hossain 1988: 10). Another study by Khandker (1996) revealed that in the villages covered by Grameen Bank programmes, the level of absolute poverty was 75% lower than in the villages not covered by the programmes. Hashemi and Morshed (1997: 223) also point out that the Grameen Bank programmes not only ‘reduced poverty and improved the welfare of participating households, but also enhanced the household’s capacity to sustain their gains over time’. A further study by Khandker (2003) on the basis of household level panel data in Bangladesh indicated that microfinance programmes had a positive impact in reducing poverty among the participating households leading to a positive spill over effect at the village level. His analysis further suggested that microfinance programmes were contributing to the economic growth of the programme villages.
Chowdhury *et al.* (1991) observed that the households participating in BRAC programmes in Bangladesh had more incomes, owned more assets and were more likely to be gainfully employed than those outside the programmes. These observations were confirmed by Mustafa *et al.* (1996) who also found that the BRAC members could cope better in the lean seasons and that their coping capabilities were directly proportional to the length of their memberships and the amounts of loans obtained from BRAC. Kamal (1996) pointed out that microcredit programme participants had higher per capita incomes than non-participating households. Therefore, while acknowledging ‘arguable limitations’ of microfinance as in case of many other ‘rural development models’, Hossain (2003: 415) argues that the success of microfinance cannot be ignored.

### 4.3 Microfinance works better for the richer poor

Navajas *et al.* (2000: 343) in their study of five Bolivian Microfinance Institutions (MFIs) found that they reached ‘richest of the poor and the poorest of the rich much more than they reached the poorest of the poor’. Hulme and Mosley (1996) note in their exhaustive study of thirteen microfinance institutions in seven developing countries that income enhancing impacts of microfinance are not uniform across all income levels. They demonstrated that the impact of lending on the recipient household’s income tends to increase (albeit at a decreasing rate) as the recipient’s income and asset position improve. According to them, ‘[t]here is clear evidence that the impact of a loan on a borrower’s income is related to the level of income . . . This finding should not be unexpected given that those with higher incomes have a greater range of investment opportunities, more information about market conditions and can take more risk than the poorest households without threatening their minimum needs for survival’ (Hulme and Mosley 1996: 109). The finding can also be explained by the fact that the poor use a greater portion of their loans towards meeting their consumption needs. They are also more vulnerable to negative income shocks forcing them to sell their assets in order to cope with such shocks. Thus microcredit, in particular, and microfinance, in general, tends to benefit the less poor more than the poorest, if it reaches them at all. Sarangi’s study (2007) also showed that very poor households were by and large excluded from the studied programmes. Navajas *et al.* (2000: 333) conclude that the MFIs, which have achieved financial self-sufficiency are the ones that catered to the borrowers who were either non-poor or were ‘richest of the poor’ in their respective countries.
5 Targeting the poor
Several MFIs have been engaging themselves with designing the solutions for the problems concerning expansion of their outreach to include the very poor. One school of thought, as well as some practitioners, believes that in order to target the poorest it is essential that their external environment be altered so that they are able to make better use of the microfinance products and services on offer. There are however others who believe that such targeting can be and should be achieved by modifying the products and services presently offered by the MFIs to suit the needs of the poor.

5.1 Targeting the poor by altering their external environment

5.1.1 By providing non-financial services
A growing number of academics and professionals have been advocating for providing non-financial services before or along with financial services while targeting the poorest; an approach which is described by Hickson (2001: 64) as ‘comprehensive’. Bhatt and Tang (2001) mention that the very poor do not have many economic or business opportunities, are socially isolated, and their risk-taking capacities are very low. They are therefore not in a position to gainfully exploit the financial services even if these are made available to them. The microfinancial services, and especially credit, in their case have a bigger impact when they are provided in conjunction with the other desperately needed non-financial services such as provision of education, health services, and skill upgradation support etc. Operational subsidies may therefore be justified for the MFIs that cater to such households, undertaking great financial risks.

As per the analysis of BRAC in Bangladesh, the poorest segments of the population mainly rely on wage labour and do not possess the confidence in their entrepreneurial abilities. Credit is therefore, not a very useful product for them. They need vocational trainings, and creation of, and linkages with, the market before they can make productive use of any credit products. BRAC has used this analysis in designing and implementing their reportedly highly successful Income Generation for Vulnerable Group Development Programme (IGVGDP) programme. Many other organisations, such as MYRADA (originally known as Mysore Resettlement Area Development Agency) in India provide microfinancial services in conjunction with their other developmental efforts.
5.1.2 Enabling macroeconomic policies and agriculture development

ADB (2000) states that in order for microfinance to contribute to rural poverty alleviation in a significant way, adequate economic opportunities should exist in the rural areas. Such opportunities can be expanded through expediting the agricultural growth, which also spurs the non-farm rural economic growth. Thus according to ADB, development in rural financial markets in Asia requires substantial investments in agriculture. Moreover, microfinance can only be a part of the solution to the poverty problem, as Hulme (2000) points out. Poor people will have to be provided with various social security measures, efficient health and education services, and pro-people macroeconomic policies before the issue of poverty alleviation can be comprehensively addressed.

5.2 Targeting the poor by modifying microfinance products

Another set of academics and practitioners claim that the microfinancial practices can be inclusive of the poorest if the microfinance products and services are modified to adequately suit their needs. According to them, the microfinance industry is in an urgent need of diversifying its products and services. According to Wright (1999: 45),

In preference to ‘targeting the poorest’ and trying to persuade them to join organizations that are offering inappropriate financial services, it is the services themselves that require revision and tailoring to meet the needs of the poorest, and thus to attract them into microfinance programmes.

5.2.1 Minimalist approach

SafeSave in Bangladesh found that forming the groups was time consuming and the group dynamics did not allow inclusion of the very poor. SafeSave concluded that the non-financial services were costly and were of questionable use; that the capacity building programs had a poor record and were very costly; and that the financial products if tailored to the needs of very poor will create their own demand and will therefore have an impact (Cortijo 2005). As an example, the products can be designed in such a way that they attract only the poor and not the relatively well-off households, like granting small loans initially; amount of which can be increased afterwards, based on the financial performance and the subsequent needs of a particular household. This approach, generally described as ‘minimalist’ (Hickson 2001), is also being successfully applied by the organisations like Quinghai Community Development Project (QCDP)\(^5\) at Quinghai, China.

\(^5\) Details on the QCD Project are available online from: http://www.globaleducation.edna.edu.au/globaled/go/cache/offonce/pid/687,
5.2.2 Moving beyond entrepreneurial credit

Initial success of entrepreneurial lending in the microfinance programmes across the world led to neglect of some other important financial services such as micro-savings and consumption loans. The programmes did not try to identify and act upon the people’s own perceived needs for financial services. Studies on the subject reveal that the demand for savings services is far greater than for the credit products but the microfinance industry at present seems to be more interested in promoting and dispensing the credit products. The reason for the same lies in the fact, as Hulme (2000) points out, that the MFIs are pursuing a business model, which renders their institutional viability dependent on expansion of credit services. Most of the savings products available with the MFIs, such as fixed and involuntary savings requirements of the SHG-Bank Linkage model in India, serve the purpose of merely collaterising the credit and do not address the savings needs of the poor. Even the credit products are designed in such a way that they are suitable for only a small fraction of a highly diversified market of microenterprises. Microenterprise market is characterised by ‘varied needs which cannot all be met by a loan methodology designed for high-turnover, experienced microbusinesses needing working capital (Eversole 2000). Eversole (2000: 48) further points out that the microcredit seldom reaches the poorest as ‘the poorest people either have no microenterprise of their own, or their version of ‘microenterprise’ (12 pears on a blanket) is as far from a carpenter’s shop or a market stall as a plastic tap is from a house.’ Schreiner (2002: 602) therefore insists that ‘microfinance is a weak tool to help the very poor especially with a focus on loans instead of savings’.

There seems to be a pervading belief in the industry that the poor households are too poor to save. Various studies on the financial needs of the poor households however reveal that even poor households are eager to save if the interest rates are appealing and the savings accounts are flexible. Wright et al. (1997: 336) argue that ‘the poor want and need flexible savings facilities to meet emergencies and protect assets, to acquire assets and develop their businesses, and to meet life cycle/social obligations such as education, marriage ceremonies and funeral expenses’. ‘Savings first [emphasis in original] is more appropriate in subsistence agriculture and low-return activities; credit first [emphasis in original] is more appropriate in high-return activities (Seibel 2001: 3)’. As the poor people in India work in low-return activities within a highly inefficient and under-developed market infrastructure, and are susceptible to various adverse income shocks, the loan products are not their most preferred
financial choice. However, they may graduate to high return activities requiring credit, as Seibel (2001: 3) points out, after generating required start-up capital by deploying ‘savings-driven investments in low-yielding activities’.

As the poverty is dynamic and non-linear, the strategies to reduce poverty should be focussed on reducing impacts of various economic shocks and resultant dramatic decreases in income. Thus the financial services in this context may be construed as ‘protectional strategies’ of the poor, which create conditions for generating additional incomes but do not increase their vulnerability (Hulme and Mosley 1996: 94). Credit for the poor ‘consists mainly of borrowing for protective purposes, sometimes indeed to finance consumption or pay-off existing borrowing from moneylenders……institutions lending to the poor are therefore ill-advised to treat small loans for consumption as being ‘unproductive’ (Hulme and Mosley 1996: 96). According to Hickson (2001), it is important from the perspective of the poor that their consumption and conditions of health stabilize. The financial services targeting them should also be flexible, both in terms of periodicity as well as the place of payment/repayment.

Sharif (1997: 69) differentiates between increasing incomes and reducing poverty and mentions that ‘[p]overty . . . is not only about having inadequate income or income below the ‘‘poverty line’’, but is also about the inability to sustain a specified level of well-being’. Thus, it is important that the incomes increase but it is equally important that such increase is put to proper use; otherwise it may be lost again in activities like gambling. He emphasises that the basic role of the financial services is to facilitate the clients to manage their income and expenditure streams more gainfully. Financial services should therefore provide ‘options to minimize ‘shocks’ (arising from illness or death in the household, crop failure, the theft of key assets, dramatic price fluctuations, the payment of dowry etc.), and to invest in income generation activities with risk levels appropriate to the household’s basic needs of security.’ Thus the appropriate financial services for the poor should consist of a range of savings, credit, insurance, pension and remittance services.

Hickson (2001) points out that while richer households generally have the flexibility to accommodate the rules of rigid microfinance programmes, the financial vulnerability of extremely poor households prevents this. ‘Very poor and unconfident households may deliberately choose to avoid microcredit programmes, fearing indebtedness or an inability to meet the requirements of these schemes. These households live a hand-to-mouth existence of
often rapidly changing circumstances, which must be accommodated by programmes that seek to reach them (Hickson 2001: 64).

5.2.3 Microinsurance

According to World Development Report 2000/2001 (World Bank 2001), various types of risks and vulnerability are a major cause of poverty. In absence of insurance, poor households are compelled ‘to undertake costly strategies to manage their incomes and assets in the face of risk, lowering mean incomes earned’ (Dercon and Kirchberger 2008: 2). They have to ignore various income and well-being enhancing options that carry risk. According to Mosley (2001), strategies of the poor households for survival do not allow them to undertake any activity, which increases the risk to their livelihoods. They are therefore unable to adopt any productivity-enhancing technologies, as most of such technologies are riskier than their traditional means of production. Thus, poor households are locked in a vicious circle in which ‘they do not innovate because they are poor, and are poor because they do not innovate’ (Mosley 2001: 51). Such loss of opportunity along with the impact of adverse income shocks is one of the major contributory factors for the poor to remain trapped in poverty (Elbers et al. 2007; Rosenzweig and Binswanger 1993).

Moreover, poor are at much greater risk than the non-poor in their daily lives, as they live in poorly constructed homes and in areas more prone to disasters, have little formal education, and suffer from poor nutrition and limited access to healthcare. Financial services in such situations may have a larger impact on poverty when offered along with the well-designed and flexible microinsurance products than otherwise.

5.2.4 Accurate needs assessment to avoid indebtedness

Meyer (2002) points out that it is important for the MFIs to identify who among their very poor clients need only financial services; who need financial and non financial services both; and who need only non financial services before starting to serve them. Only accurate assessment of clients’ needs can maximise the poverty impact of microfinance. MFIs also need to be careful and not overlend to the poor clients as the poor often fail to accurately assess and quantify their repayment capabilities due to ‘aspiration paradox’6(Olsen 2008: 1).

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6 ‘The aspiration paradox in western life is said to occur when a family invests in holidays, a fancy car, housing or consumer goods – often using a credit card – without realising that the debts piling up are going to cause them to go bankrupt (Olsen 2008: 6)’.
5.2.5 Design of programmes

In their study, Hulme and Mosley (1996: 109) found that although the economic impact of microfinance services was higher for the households with higher incomes, the impact of ‘well-designed’ microfinancial schemes was more than that of ‘ill-designed’ schemes, across all income levels of clients. Thus it is evident that the poverty impact of microfinance can be successfully enhanced by improving the design of the schemes, such as, in terms of the product features, delivery mechanisms, and management structures. Wright (1999: 38) asserts that ‘given the right economic conditions (reasonable levels of inflation, access to markets etc.), well-designed microfinance services can reduce poverty’. Morduch (2000: 617) however claims that the power of the ‘win-win’ vision has obstructed the process of experimentation and innovation in the product designs and delivery mechanisms to develop suitable and affordable microfinance practices for the very poor.

6 Social capital and microfinance

Social capital is normally defined as locally formed associations and institutions based on mutual trust and the norms of reciprocity. According to World Bank7,

Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society’s social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions, which underpin a society – it is the glue that holds them together.

Following Robert Putnam’s (1995; 1993) demonstration of positive correlations between social capital, and indicators of political democracy and economic growth, there has been a wide-ranging acceptance that social capital substantially contributes in reduction of poverty and vulnerability. There have been arguments that social capital corrects failures of market as well as State. Proponents of social capital theory believe that significant investment to enhance and strengthen the social capital of a community is a pre-requisite to development of that community from the bottom up. Microfinance, especially group-based microcredit, in such a situation assumes an added importance as it is seen to strengthen the social capital (e.g. Dowla 2006; Mousley et al. 2004; Larance 2001).

However such strengthening of social capital is argued to be ‘a by-product’ and not ‘the primary objective’ of microfinance, and therefore ‘there should be more efficient ways to

enhance social capital in any given setting’ (Anderson et al. 2002: 95). Rankin (2002: 2) points out that ‘in practice, the financial imperatives for sustainability often lead microfinance programs to engage the collective only in the most instrumental manner –reducing administrative costs and motivating repayment – at the expense of the more time-consuming processes of consciousness-raising and empowerment’. According to her, the instrumental role of traditional social networks and associations is to produce and reproduce the existing social hierarchies. Thus, development programmes such as microfinance may, in fact, strengthen the prevalent social hierarchies, rather than weakening them, if implemented without considering structural analysis of social capital and its implications.

Bourdieu (1977) used structural analysis to develop a framework for studying social and cultural forms of capital. According to his analysis, individuals are not the generators of social capital; they inherit it on the basis of their social positions in a particular social structure. Thus the social networks and associations may not be necessarily harmonious as pointed out by the social capital theorists, but may turn out to be conflictual, contradictory, and exploitative. From the point of view of the structural analysts, the overarching aim of development programmes should therefore be to foster forms of networks and associations of the downtrodden, which bring their oppression and deprivation into their collective consciousness, and generate social capital that builds their resistance to such oppression and exclusion (Agarwal 1994). According to Rankin (2002), microfinance programmes that function within the existing social associational cultures will not accelerate social change. She suggests that ‘microfinance programmes should incorporate strategies for “conscientization” about the broader macro-regulatory context, and for re-framing individual resistance to local gender ideologies as more collective, overt forms of action’.

7 Institutional aspects of microfinance service delivery

Microfinance is delivered through a variety of arrangements generally referred to by an umbrella term microfinance institutions (MFIs). The MFIs may be a bank, a finance company, a non-bank finance company; or it may be a nongovernmental organisation (NGO). The following subsections describe the issues confronting the MFIs in general followed by a discussion on the NGOs delivering microfinance.
7.1 The Microfinance Institutions (MFIs)

According to Zeller and Meyer (2002), there are three overarching institutional objectives, namely, financial sustainability, outreach, and impact, which confront all the microfinance institutions. Some analysts take a position that financial sustainability and outreach are compatible objectives (e.g. Christen et al. 1995; Otero and Rhyne 1994), while others such as Hulme and Mosley (1996) argue that there is a trade-off between these two objectives for any MFI. Moreover, most MFIs attempting to improve the outreach need financial subsidies, and thus entail social costs including the opportunity costs of the subsidies. In such a situation, measuring the impacts of the services offered by the MFI becomes very important in order to assess and ensure that the social benefits generated by the MFIs exceed the social costs being incurred by them (Zeller and Meyer 2002).

7.1.1 Welfarists v/s Institutionalists

The debate on financial sustainability versus outreach and poverty impact has divided the academic world and the practitioners into two camps: welfarists and institutionalists. According to Bhatt and Tang (2001), welfarists insist on expanding outreach and alleviation of poverty, which they feel is the key to building sustainable development mechanism based on providing microfinance and other non-financial services. Such mechanisms may need subsidies to remain sustainable. Institutionalists on the other hand see the key role of microfinance as broadening the net of financial services, i.e. providing sustainable financial services to as many households as possible. The institutionalists gauge the success of a microfinance programme by the level of its financial sustainability and not by its impact on its clients and the community. But as ‘the animating motivation behind the microfinance movement was poverty alleviation’ (Brau and Woller 2004), the institutionalist ideology seems to be defeating the very purpose of existence of microfinance to some extent.

7.1.2 Myth of ‘win-win’ proposition

‘Win-win’ proposition was put forward by the CGAP and other donor agencies claiming that the MFIs which strive to be financially sustainable are the most effective in reducing the poverty in the long run. The proposition however does not stand in the light of evidence across the world. Morduch (2000) points out that the clients of financially sustainable MFIs such as Badan Kredit Desa (BKD), Indonesia are petty traders or owners of small service enterprises like restaurants and tailor shops, which typically operate on high margins and have a quick turnaround of investments. They can then pay high interest rates, with short periods of
repayment. In the case of several other MFIs striving to target the poor, the clients are generally involved in marginal farming, livestock rearing, handicrafts, agricultural processing, and other sundry jobs which are low return activities requiring longer term loans. In such situations, expecting the MFIs to be financially sustainable is highly unreasonable. In fact, on a realistic assessment, only about 5% of all the existing microfinance programs will ever be financially sustainable (Morduch 2000). Thus the MFIs will keep requiring subsidies in order to remain relevant and useful for the poor.

The subsidies however may not be necessarily targeted towards reducing the interest rates. They may rather be provided, as Bhatt and Tang (2001) propose, for the institutions that mobilise the poor people to organise themselves, facilitate them to develop their managerial capabilities and skills and create organisations to be owned by the people themselves in the long run. Dunford (2000) argues that the social service-oriented MFIs are in a better position to serve certain market niches than sustainability-oriented MFIs. Morduch (2000: 623) claims that ‘[s]ustainable programs may have advantages in achieving scale. Subsidised programs appear to have advantages in outreach.’ According to Dunford (2000), the purpose of the social service-oriented MFIs will be better served if they accept that financial sustainability is not among their objectives.

7.2 NGOs delivering microfinance

NGOs, as defined by the World Bank, ‘include many groups and institutions that are entirely or largely independent of government and that have primarily humanitarian or cooperative rather than commercial objectives’. According to the United Nations Environment Programme (UNEP), an NGO is ‘a non-profit group or association organized outside of institutionalized political structures to realize particular social objectives (such as environmental protection) or serve particular constituencies (such as indigenous peoples)’.

NGOs, by the nature of their work and their constitution, are believed to have close linkages with the civil society. They present an alternative to the bureaucratic, top-down development approach of the governments through their participatory, bottom-up development models. Most of them are ideologically-driven and attempt to leverage upon the social capital of local

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communities in their operations and activities. NGOs strive to empower the civil society, increase levels of political, social and economic participation of the civil society, and are thus looked upon as agencies that expand and deepen the democracy (eg. Korten 1987; Ayres 1983; Betts 1978).

Activities of the NGOs can be summarised in three broad categories: humanitarian response to natural or man-made disasters, crises or emergencies; social, economic, and environmental development; and advocacy. Majority of NGOs, however, operate in more than one of these categories depending on the availability of funds. According to their areas of operations, NGOs may also be transnational, national, or community-based organisations (CBOs). Most of the transnational NGOs were initially established in the industrialised countries. They however opened their branches in low-income countries where it was possible to apply for funds in view of increasing tendency of States, and bilateral and multilateral agencies to outsource the social policies to the NGOs (Siméant 2005). Such practice of opening of branches appears to be a successful business strategy in the highly competitive funding markets in the developing countries. According to Wootliff and Deri, who argue that business corporations can learn a lot from such transnational NGOs, ‘NGOs are no longer perceived as small brands of activists but rather as the new ‘super brands’, surpassing the stature of major corporations, government bodies and even the media among consumers’ (Wootliff and Deri 2001: 158). Ferguson and Gupta (2002: 981) argue that such transnational NGOs along with other multi-lateral agencies are challenging the superior ‘spatial’ authority of States, especially in low-income countries.

Applying for the funding requires the NGOs to comply with very specific administrative and budgetary rules in order to satisfy the donors. They are therefore compelled to adopt ‘homogenous practices and organizational cultures… strongly structured’ by States and multilateral donors/agencies (Siméant 2005: 853). In order to operate smoothly and improve their acceptability, the transnational NGOs have to establish linkages and collaborate with the national NGOs. Such collaboration with the local civil society organisations is ‘especially appealing to multilateral donors’ not only because theoretically they work directly with the ‘poor’, but also because ‘such cooperation fits well within a neo-liberal framework whose cornerstone policy is to curb State spending and roll back government investment in social policies’ (Feldman 2003: 10).
Funding for the national NGOs and CBOs comes generally in cycles either through the transnational NGOs or through multilateral or bilateral donors. Hence, when funding is available, the expectations of those who benefit from the work of such NGOs and CBOs may be raised but only to be shattered later when the funds are no longer available. More importantly, they never get to know the reasons behind such unavailability of funds. The cyclical funding hinders the sustainability of implementation of the projects. A majority of NGOs and CBOs, because of the constant change of political agenda of donors, are forced to chase ‘after various funding projects that have little or nothing to do with their original mission statement’ (Henderson 2002: 157). They perfect their fundraising and management skills and become more ‘professional’ (Jad 2004). This ‘professionalisation’ of the ‘indigenous’ ‘third sector’ reflects the development, at the national level, of a ‘fairly distinct civic elite’, the division ‘of the civic community between the haves and the have-nots’, and the centralisation of resources ‘in the hands of the NGOs’ that manage to have connections with the West (Henderson 2002: 142).

Anheier (1990) summarises the comparative advantages of NGOs, as described in development literature, in the four major arguments. According to the ‘social argument’, the NGOs are more likely to reach the poorest strata of the society that is generally bypassed by the State delivery systems and thus bring about greater social equity than the State agencies. The empirical evidence however suggests that many NGOs are not necessarily participatory and do not necessarily reach the poor (Smith 1987). While analysing evaluation reports of 72 different NGO projects in various sectors and countries in the developing world, Tendler (1982 cited Anheier 1990) did not find evidence supporting the belief that the NGO projects are participatory. On the contrary, she found the decision making to be top-down by the NGO staff along with the local elites. The projects were using only known techniques without making any efforts to innovate and the poorest forty percent of the population were not necessarily included as target groups. In his extensive study on sustainability of development initiatives by NGOs in Bangladesh and Nepal, Hossain (2001) observes that ‘although the NGOs preach people’s participation in development, in practice participatory decision-making is not practiced by most of the NGOs in Bangladesh and Nepal. The central leaders usually make decisions in the head office, often with the influence of the donors’ (2001: 238). Hossain (2001) also points out to a ‘founder’s trap’ where NGOs ‘activities are structured around strong personalities (of their founders) instead of organisational functions. In such situations,
attempts to reach the ‘poorest by involving NGOs and by bypassing southern governments’ may prove to be unsuccessful. (Hossain 2001: 235-6).

The projects formulated by the NGOs for funding from the donors are very rarely the outcome of a negotiation with the ‘local’ civil society or the ‘poor’ since ‘donor approaches to beneficiary participation remain instrumentalist’ (Hulme and Edwards 1997: 8). Demands and claims of the ‘poor’ are instead ‘often appropriated by well-entrenched NGOs working ‘on their behalf’”, this sometimes resulting in ‘the creation of a parallel set of institutions that speaks for the disenfranchised rather than an arena where a multiplicity of voices can be heard, and where poor clients are entitled to speak for themselves’ (Feldman, 2003: 18; emphasis in the original). In Russia, Henderson noticed that the NGO projects reflected the ‘agenda of the foreign assistance programs rather than domestic needs’ (Henderson 2002: 142).

The ‘economic argument’ assumes that the operations of the NGOs are more cost-effective than those of the public sector. According to this argument, the NGOs strive to be self-sufficient and self-reliant, and thus tend to be more efficient. However, as mentioned above, very few NGOs command stable funding and are therefore unable to provide efficient services on a consistent basis. Hossain (2001) points out that the organisational structure of most of the NGOs in developing countries is weak and they lack managerial capabilities. He concludes that ‘with the present level of management capacity, most of the NGOs would fail to manage their development programmes’ (2001: 239). Smith (1987) did notice greater efficiency in the NGO operations in comparison to the public projects, but it could be attributed to ‘lower labour costs and incomplete pricing...not taking provisions for depreciation, relying on voluntary local inputs, not including transaction costs... and excluding long-range recurrent costs which occur at project sites or to target groups’ (Anheier 1990: 365).

The ‘political argument’ stipulates that NGOs are apolitical and therefore remain largely unaffected by the changes in the political situations in their countries. They are also believed to be above political considerations while serving their constituency. The argument does not hold, as the NGOs are part of the wider political system in their geographical location, many of them having been initiated due to, and rooted in, particular political ideologies. They are ‘part of a political spectrum ranging from organisations in the political tradition of… socialism to… promoting liberal, social democratic, or conservative political values’ and the organisations based on various religious beliefs (Anheier 1990: 366).
The ‘cultural argument’ implies that NGOs are closer to the local community, are ‘embedded in the local culture’ and are therefore best placed to articulate local needs, demands and aspirations. The evidence however suggests that most NGOs ‘tend to initiate projects rather than to enhance already existing ones initiated by local population’ (Anheier 1990: 367). According to Twose (1987), Malian NGOs are not grassroots community organisations; rather they represent a new private-sector. Moreover, professionalisation of staff and growing institutional hierarchies in response to the donors’ demands is increasing the distance of the NGOs from the local communities.

Saifullah (2001) describes how BRAC, one of the biggest NGOs in Bangladesh collaborated with a multi-national hybrid seed company ACI Ltd. to provide hybrid paddy seeds to the farmers in Bangladesh after the 1998 floods. BRAC started providing hybrid seeds as part of credit through its microcredit programme to even the landless farmers. When the farmers realised that the seeds were sterile and a part of the yield could not be utilised as seeds again (as they had been traditionally doing), they did not use the seeds. ‘There was no scope of denying as the price of the seed was always deducted from the credit amount’ (Saifullah 2001: 148). Thus they had no option but to accept the seeds, as they were badly in need of credit. As there was no demand for these seeds in the local market, most farmers threw them away instead of using them. Saifullah (2001: 148) goes on to state,

Thus one can reasonably argue that hybrid rice is not simply the thing that credit clients want and BRAC provides out of goodwill. On the other hand, it becomes distinctly clear that the multinationals are incorporating NGOs in their seed business just to take the advantage of the existing wide network of the NGOs for marketing their seeds. BRAC has been chosen as it is one of the biggest NGOs of Bangladesh, it has its field force up to the village-level.

He further mentions that Grameen Bank too has a similar collaboration with Monsanto, another multi-national agriculture marketing company, thus demonstrating the hollowness of the ‘cultural argument’.

NGOs have been the driving force behind the microfinance revolution throughout the world. The doubts have however been raised about their suitability to take this revolution to the next level for it to be effectively and efficiently available to the poorest and at the remotest places, due to the factors mentioned above. Moreover, many studies find the leaders and the management of the NGOs being neither accountable to the people, nor to their own organisations. The situation is often contrasted with the political executives who have to face the elections and therefore the people on regular intervals in democratic countries. Such lack
of accountability affects the efficiency and therefore impact of their operations adversely. According to ADB\textsuperscript{10},

Most NGOs are also characterized by a high level of operational inefficiency, and have a very limited capacity to serve an increasing segment of the market on a continuing and sustainable basis. They suffer from governance problems mainly because they lack “owners” in the traditional sense of the term, and their management assumes a great deal of power. Heavy reliance on and relatively easy access to donor funds have aggravated the governance problems of some NGOs.

Bhatt and Tang (2001: 321) argue that ‘in most cases (of NGOs), subsidies have ended up funding inefficient and lax management practices that have resulted in limited outreach, high loan default rates, and unsustainable operations’. The NGOs are also normally observed to be lacking financial experience and technical abilities, essential for carrying out microfinance activities sustainably and efficiently. Due to these reasons, Mahajan (2000: 16) concludes that while the NGOs ‘invented’ microfinance, they are not ‘the best type of agencies’ to carry it out ‘on a long term sustainable basis’.

\textbf{7.3 Need for institutional alternatives}

From the above discussion, it is evident that the institutional innovations in microfinance so far have failed to deliver adequately on their promise. According to a joint study by United Nations Economic and Social Commission for Asia and the Pacific and Asian Development Bank (ADB), microfinance institutions in Asia ‘do not have adequate capacity to expand the scope and outreach of sustainable microfinance services’ to most of the potential clients (Sharma 2002: 125). They are not in a position to raise funds from the market or mobilise deposits from the public and do not have capacity to address financial needs of a vast section of clients by designing and delivering appropriate services. They are also unable to reach the very poor and those living in remote and sparsely populated areas, as the breadth and depth of their network are inadequate, and their delivery systems are inefficient. The study further points out that ‘the low level of social development, a distinctive characteristic of the poor in Asia, is a major constraint on the expansion of microfinance services on a sustainable basis’ (Sharma 2002: 128). ADB also suggests that investments in social intermediation\textsuperscript{11} are not likely to be made by the MFIs in the private sector.

\textsuperscript{10} Available at: \url{http://www.adb.org/documents/policies/microfinance/microfinance0304.asp?p=microfn...}[Accessed 7 December 2007].

\textsuperscript{11} ‘Social intermediation is defined broadly as a process in which investments are made in the development of human resources and institutional capital to enable the poor to access effectively and productively the financial services of the formal sector. Such investments, among other things, involve awareness building among the poor on basic formal financial services, basic literacy training required to access formal financial services, and basic record keeping for community-based financial service operations (ADB 2000: 18).’
Thus it appears that the present structures and mechanisms dispensing microfinance are inadequate to cover the entire needy population and offer variety of products needed by people at different levels of socio-economic development (Basu and Srivastava 2005). Hulme (2000: 28) therefore calls upon microfinance community to focus on ‘developing institutions that can create and provide the broad range of microfinancial services that will support poor people in their efforts to improve their own and their children’s prospects’. Bhatt and Tang (2001: 322) also emphasise the importance of considering ‘institutional alternatives for delivering financial services to the poor on a sustainable basis’.

As discussed in the preceding paragraphs, NGOs and MFIs in the private sector are unable to offer such alternatives due to various reasons. The situation therefore presents a strong case for involving relevant State institutions in the business of microfinance, as one of the proclaimed roles of a welfare State, such as that of India, is to ensure well-being of its people and therefore reduce (and eventually alleviate) poverty.

8 Engaging State in microfinance service delivery

According to the World Development Report (World Bank 1997: 20), ‘[S]tate, in its wider sense, refers to a set of institutions that possess the means of legitimate coercion, exercised over a defined territory and its population, referred to as society. The State monopolises rule-making within its territory through the medium of an organized government’. The report acknowledges that an effective State is essential for the development to take place. Such a State facilitates provision and growth of physical, economic, social, and other infrastructures, without which social and economic developments are not possible. While analysing the report, Chhibber (1997) demonstrates that the growth rate is higher for the countries with better State policies and stronger institutional capabilities. Werlin (2003) uses political elasticity theory to compare the levels and causes of prosperity (or lack of it) in respect of four pairs of countries; namely; Japan and Nigeria, the Netherlands and Ghana, Singapore and Jamaica, and Spain and Mexico. According to him (Werlin 2003: 332), the governments, which are more politically elastic, i.e., have greater capacity to ‘integrate and alternate soft forms of political power (linking incentives to persuasion) with hard forms of political power (including disincentives and coercion)’, are also more effective. Such integration allows the political powers to take on ‘rubber band’ and ‘balloon’ characteristics, through which they can
decentralise and delegate their powers without losing their control or authority (Werlin 2003: 329). His analysis shows that the prosperity or richness of a country is primarily attributable to the quality of its governance rather than richness of its natural resources. Jreisat (2004) also argues that the progress and development of a society depends on the ability of its system of governance to act adequately and responsibly. Quality of governance becomes even more crucial in the era of globalisation, especially in the context of developing nations. Jabbra and Dwivedi (2004) point out that good governance is essential for poor countries if they intend to receive benefits from globalisation. According to them, ‘if managed well, the interplay between globalization and good governance can become a transformative process that stabilizes society’ (Jabbra and Dwivedi 2004: 1106).

Henry (2007) points towards a fundamental change in the way the government and its administration are currently being perceived. According to him, this shift is primarily caused due to such trends as globalisation, redefinition, and devolution. Different aspects of globalisation are challenging the traditional place and powers of governments, while the governments are redefining themselves more and more in terms of collaborations, partnerships and networks rather than the hierarchy and authority. Rhodes (1996: 652) however describes this phenomenon as ‘governing without governance’, and points out that the new systems of governance are causing fragmented policies and programmes in the United Kingdom, which lack coordination and accountability. Fleurke and Willemse (2004) apprehend that such a situation where the government does not play a key role may result into a deficit of political democracy. Salamon (2002) therefore advocates for a strong and competent government to ensure that private interests do not prevail over larger public interests. The modern day government, in view of Goodsell (2006), is the case of dispersed governance, the degree of dispersal varying across different policy realms. In all such realms, he emphasises, the government should have a prime role, as among all the actors, only the government has the ‘legal authority and mandate to seek out the public good’ (Goodsell 2006: 629).

A significant body of literature points to the crisis within the institution of democracy. It is being increasingly realised that the present forms of democracy are not being adequately responsive to the people’s needs and aspirations and are therefore under attack by both extreme left and extreme right. In such a situation, ‘a key challenge in the twenty first century is constructing new relationship between the ordinary people and the institutions- especially those of government- which affect their lives….through new forms of participation,
responsiveness and accountability’ (Gaventa 2006: 1). Engagement of relevant State agencies in designing and delivering a whole range of microfinancial (and non-financial) services may prove to be one such (much-needed) new form. Moreover, one of the major aims of the administrative activity remains to generate and sustain adequate levels of ‘public trust in government that makes a democracy possible’ (Goodsell 2006: 633). Such trust, according to Harisalo and Miettinen (2002), gives rise to a capital, trust capital, the force of which is even stronger than that of the financial and human capitals. Thus, it may be important for the State to engage in the activities such as microfinance in order to generate the people’s trust capital in democratic institutions.

Besley (1994) also opines that it may be a better idea for the State to intervene in credit markets to support the poor rather than adopting measures aimed at asset-redistribution. According to Lapenu (2002), financial systems require State interventions to correct market failures. The State thus needs to intervene to correct market failures and strive for deepening and broadening of financial infrastructures through measures aimed at institution-building as well as promulgation and implementation of enabling regulatory and legislative mechanisms. One important aspect requiring State intervention is the institutional innovations to improve the outreach of financial systems, described by Lapenu (2002: 299) as ‘public good’. Designing and testing such innovations is often very costly and the success is not guaranteed. The private sector therefore cannot be expected to invest on such public goods, which go a long way to reach the financial services to the poor and to those living in remote and unserved areas.

In Indian context, therefore, the State needs to intervene to correct the existing situation of microfinance delivery that is leaving majority of the poor out of its ambit. Such intervention may be in terms of providing more enabling legislative and regulatory framework. It may also be in the shape of involving suitably located and relevant State institutions in the delivery of microfinance as ‘the presence of a publicly owned banking structure can enhance the breadth of microfinance outreach’ (Lapenu 2002: 309). An example of such State intervention is highly successful State-owned Bank of Agriculture and Agricultural Cooperatives (BAAC), which reaches eighty percent of the 5.6 million rural households in Thailand (Yaron, Benjamin, and Piprek 1997). Lapenu (2002: 316) points out that ‘in the rural financial system, State-owned institutions may achieve considerable outreach compared with most NGOs and private commercial banks not yet involved in microfinance [emphasis added]’.
him, the presence of such institutions can also facilitate growth of private MFIs, as the financial and technical infrastructure thus created will also improve the profitability and reach of such MFIs.

In this framework, this research explores whether engaging a State institution, India Post, may enhance depth and breadth of the outreach of microfinance. It also explores the possible linkages of microfinance with social protection, the other important micro-level response to the incidence of poverty, for enhancing its poverty impacts. The following sections provide a conceptual overview on social protection particularly in context of low-income countries.

9 Social protection

Social protection is generally described to include ‘public actions taken in response to levels of vulnerability, risk, and deprivation which are deemed socially unacceptable within a given polity or society’ (Norton et al. 2001: 7). The basic idea of such protection is ‘to use social means to prevent deprivation, and vulnerability to deprivation’ (Dreze and Sen 1991: 5). Social Protection thus has a ‘strong poverty focus’ (Barrientos and Lloyd-Sherlock 2002: 1).

According to Avato et al. (2009: 456), social protection ‘includes interventions and initiatives that support individuals, households, and communities in their efforts to prevent, mitigate, and overcome risks and vulnerabilities, and that enhance the social status and rights of the marginalized’.

Various social protection measures are possible and need to be taken to reduce and mitigate such risks and vulnerabilities at the levels of individuals, households, and communities. Dreze and Sen (1991: 3-4) argue that there may be two aspects of such measures; protection aspects that concern protecting the living standards and assume paramount importance at the times of social and economic shocks such as famines, and promotional aspects that aim to improve the general living standards and address deprivation and vulnerabilities. The objectives of one aspect may be very different from those of the other but the implementational strategies involving them may not be completely independent of each other. Moreover, the achievements in respect of one may feed into the other. For example, success with the promotional aspects may ease the implementation of protection aspects (e.g. higher incomes may make individual insurance less painful). Sabates-Wheeler and Devereux (2008: 69) extend such classification to include the social protection measures in four categories, viz. provision, preventive, promotive and transformative measures. According to them, the
provision measures aim to reduce and mitigate deprivation, while the preventive measures attempt to prevent the incidence of deprivation and include various poverty alleviation measures. Promotive measures focus on improving incomes and capabilities ‘through a range of livelihood-enhancing programmes targeted at both households and individuals’. The transformative measures target social injustice and various kinds of exclusion.

Different agencies have been promoting various aspects of social protection under different terminologies according to their ideological standpoints and their development strategies (Paitoonpong et al. 2008). In 1952, ILO proposed a comprehensive definition of social security with its Social Security (Minimum Standards) Convention, 1952 (No. 102), which included nine core contingencies, such as old age and death, widowhood, sickness, employment injury, invalidity, maternity, unemployment, provision of medical care and meeting increased financial needs for families with children, to be addressed through social security. This definition encompassed two strands of social protection, social insurance that is largely contributory and social assistance that is non-contributory (Arun and Arun 2001). The word “social” specifically connotes that the market alone cannot be relied on to address such contingencies (Unni and Rani 2003). Perceived adverse effects on the incomes, livelihoods and general life conditions of workers due to structural adjustment programmes undertaken in low-income countries in the 1980s and 1990s gave rise to social safety nets. The World Bank promoted a concept of social funds as means to finance the social safety net programmes. Social protection is an umbrella term that includes all these concepts and has a sharper focus on poverty reduction (Lund and Srinivas 2000).

The social protection programmes can be categorised in three broad groups of programmes: social insurance, social assistance and labour market regulations. Social insurance consists of programmes that aim to protect against contingencies such as maternity, old age, sickness, or unemployment. Social assistance programmes aim to support those in poverty, while labour market regulations ensure basic work standards and minimum wages for work etc. (Bariantos and Hulme 2008b: 3). Social protection evolved in the late 1980s and early 1990s as a comprehensive set of programmes to respond to multidimensionality of poverty. Such a response also reflected an increasing recognition of the perceived inadequacy of social safety nets, which were criticised as ‘residualist and paternalistic’ (Sabates-Wheeler and Devereux 2008: 64).
According to Munro (2008: 27), justification of social protection policies derives traditionally from three different discourses. The risks and market failures discourse provides reasons of failures in insurance markets often due to informational issues, along with the failures in credit, human capital and labour markets to justify provision of social protection. The rights-based discourse advocates for social protection to fulfill the obligations to grant legally enforceable social and economic rights to its citizens on the part of the State. Needs-based discourse on the other hand invokes practical and moral arguments in favour of reducing and alleviating chronic poverty, and promotes employing social protection measures in achieving that. The constraints that the poor face may have different explanations resulting in different approaches towards social protection as means of addressing such constraints (Barrientos and Hulme 2008). Thus the overarching role and purpose of social protection may be to reduce social risk and market failures, satisfaction of basic needs, or contribute to human development through rights-based approach depending upon the strategies the policy makers adopt while addressing the aforementioned constraints. For example, market failure discourse was largely responsible for enhanced social and economic roles of the State and thus the growth of the modern welfare State.

9.1 Concept of welfare State

According to Esping-Andersen (2001), welfare State is conceptualised in terms of Marshall’s (1950) identification of social entitlements such as citizenship, full employment, coverage of risks and reduction of social and economic inequalities. It is also understood as an ideological construct that serves to generate solidarity among its citizens and promotes national integration (Briggs 1961; Flora 1986). Garce’s et al. (2003) point out that three actors, viz. the State, the market and the family participate in the welfare as a phenomenon that is needed as a response to the factors including an ageing population, an increase in the number of dependent persons and a reduced familial support. These factors non-linearly influence many other variables and are in turn influenced by them. Welfare is normally associated with provisions of health, education, employment, law and order, housing and various other social services and is generally focused on financing, supporting, caring, servicing and upholding the accepted rights of the people. Distinction between various types of welfare States is made on the basis of according more or less importance to the different actors or to different aspects of welfare. Further investigations into the interactions and interfaces between State, market, and family lead different States to be classified as the liberal, conservative, and social democratic.
A State strong on welfare however needs greater State revenues to sustain the welfare measures at higher levels (Garce’s et al. 2003).

Focus of studies on welfare States has now shifted from welfare quantification such as more or less welfare States to typologies of welfare States (Esping-Andersen 2001). Such typologies compare different States with respect to how strongly they are assuring social entitlements (Marshall 1950), and how much they are able to avoid market dependency. With the rise of feminism, attributes such as degrees of gender bias have also figured while analysing and comparing different welfare States (e.g. Sainsbury 1996; Hernes 1987).

The research on comparative welfare State can be classified in two different categories on the basis of their treatment to the theoretical issues in social sciences. The early theorisations (e.g. Rimlinger 1971) were based on industrialisation and modernisation theories according to which industrialisation weakens the traditional family-based social protection structures and thus requires the State to supplement them with State-sponsored social protection. Such theorisation however ignored the political dimension of the motivation of State’s response, consideration of which gave rise to a political thesis based on the theories of conflict and power mobilisation (e.g. O’Connor and Olsen 1998; Shalev 1983). Adherents to such a thesis argue that the ‘nature, scope, and objectives of a welfare State depend primarily on the balance of political power between “left” and “right”’ (Esping-Andersen 2001: 14482). In addition, the welfare nature of a State depends on the way the processes of democratisation and nation-building have taken shape for a particular State (Flora 1986). It may also derive from the role being played by the State bureaucracy while designing the State policies (Skocpol and Amenta 1986).

Western European literature on the evolution of welfare State argues that the organisation and representation of the lower classes in the State determines the extent to which political rights create space and environment for expression and achievement of the social rights and the extent to which procedural democracy becomes substantive democracy. Heller (2001) however points out that in case of the low-income democracies, the collective action on the part of lower classes faces tremendous constraints due to uneven development of capitalism, deep and wide fractures within the social structures and bureaucratic authoritarianism in various forms. Such constraints, according to him, are further shaped and operationalised by the ‘institutional character of democratic states’ that underlines ‘the challenge of democratic
decentralization’ (Heller 2001: 132). An examination of the cases of popular participation in State in Kerala (India), South Africa, and Porto Alegro (Brazil) reveals that ‘civil society and social movements are critical to any sustainable process of democratic decentralization’ (Heller 2001: 134). Analysis of the reasons of the relative success of democratic decentralisation project in Kerala and Porto Alegro as compared to that in South Africa despite the similarity of initial conditions ‘highlights how social movements can transform politics and how political projects can provide focus and institutional expression to social movement dynamics’ (Heller 2001: 158). Thus the initiatives of a welfare State towards effective social protection are crucially determined by the interaction between the social movements and the political processes.

According to Garce’s et al. (2003: 210), welfare States need to ensure what they call as ‘social sustainability’, a concept borrowed from the idea of sustainable development, implying that welfare measures should also incorporate temporal aspects and keep provisions for future generations as well. Welfare of the current generation should not be at the cost of future generations. Society, enjoying such welfare measures, on the other hand, needs to assume ‘social co-responsibility’ to maintain and sustain the resultant social protection structures through tax contributions etc., based on their income levels, so that others who cannot meet their needs through their own means may also benefit (Garce’s et al. 2003: 212).

9.2 Why government should be involved in providing social protection

One of the fundamental assumptions underpinning the theory of economic policy is that the individual human beings always choose to act in a manner that enhances their own well-being. The governments may have two distinct reasons to engage in social protection within this framework. There may be inefficiency in the markets in which these individuals operate. The market situation may be far from the perfect competition, may be encountering externalities, or may simply not be existing at all. Such situations may lead to equilibria that may not be Pareto-efficient\(^\text{12}\) with respect to individual objectives. Even when the market equilibrium is Pareto-efficient, the governments may still consider the distribution of welfare among at least a section of their citizens as unsatisfactory and may feel the responsibility to improve it.

\(^{12}\) Pareto efficiency is referred to here in its normal usage that an equilibrium is Pareto efficient when it is impossible to make one person better off without making another person worse off.
There may be reasons for a government to involve in social protection that lie outside this welfare economic framework. There may be a belief within the government that given the various information constraints and even otherwise the choices made by the individuals may not be in their best interest. The government may have social welfare goals that are difficult to be defined in terms of individual objectives and thus embark on a programme targeting at least a section of the population. For example, it may decide to pursue objectives to achieve a certain social state that cannot be specified in terms of individual utility and Pareto efficiency (Burgess and Stern 1991).

### 9.3 Social protection in low-income countries

Social protection as a major attribute of the welfare State has existed in the industrially developed countries in the form of social welfare assistance, insurance, and employment generation and protection. Fallouts of structural adjustment programmes, various economic crises, and effects of globalisation have motivated the low-income countries too to incorporate social protection programmes within their policy frameworks since the early 1990s. Social protection in such countries is therefore largely focussed on poverty reduction and relies increasingly on transfer of incomes in conjunction with employment generation, creation of assets and provision of basic services (Barrientos and Hulme 2008).

Formal sector employment declined in most low-income countries as a result of structural adjustment policies. Such policies also resulted in decrease of wages in both public and private sectors. Thus, the contributory base was eroded for the statutory social insurance schemes. Structural adjustment policies further resulted in the massive cuts in social budgets thus adversely affecting the government contributions towards social insurance. Such schemes were therefore not as successful in low-income countries as in industrialised countries, particularly in case of a large majority of workers who worked outside the formal sectors (van Ginneken 1999a). They could not afford to contribute to such schemes. In many cases, they were also not inclined to contribute towards the schemes that were not designed to meet their specific needs (van Ginneken 1999a; 1996; Bailey 1994). These schemes were therefore largely limited to formal sector workers. Due to this reason, as Paukert (1968) argues, the social insurance schemes in low-income countries further skewed the income distribution in favour of formal sector workers especially because of the government subsidies on such schemes, as corresponding subsidies were not available to informal sector workers. Midgley (1984) also described it as transfer of resources from the informal sector workers to formal...
sector workers that strengthened the privileges of especially the elite in defence and civil services. He thus advocated for limiting the social protection privileges and expanding the social protection benefits. Structural adjustment programmes and influence of neo-liberal discourse also limited the State’s role in providing health and education services that adversely affected the informal sector workers and the poor (van Ginneken 1999b). Recurrent global economic crises and effects of increasing globalisation in trade and services further deteriorated the economic condition and bargaining power of the poor in low-income countries (e.g. Bardhan 2006; Basu 2006; Stiglitz 2002; Pritchett 1997).

Social protection in its current form evolved as a political and economic response to this situation in low-income countries. This explains why although the social insurance models in low-income countries generally follow the basic structures of such programmes in industrialised countries, the scope of social assistance programmes is much wider in low-income countries. In addition to protecting the poor from deprivation by helping them maintain a certain level of consumption as in industrialised countries, they aim to enhance their productive capacity by investing in their human capital development and in their physical asset formation. They further aim to help the poor to reduce their social exclusion by providing them with access to basic services and enhancing their participation in various social and other institutions. Social assistance is also sometimes employed to address the inequality issues in view of the widespread poverty in low-income countries (Barrientos and Hulme 2008). Other aspects of social protection include empowering the poor and strengthening their agency to reduce and alleviate their poverty (Sabates-Wheeler and Devereux 2008).

However, as Hicky (2008: 257) observes that ‘social protection effectively constitutes the last and lowliest arrival on an already crowded poverty policy agenda, behind growth, good governance and a broader focus on poverty reduction’ as is ‘reflected in the relative priority given to social protection in the donor-influenced poverty reduction strategy papers’. He argues that as long as donor agencies keep influencing the politics of development agenda social protection may not be effectively implemented in many low-income countries.

It is now being increasingly acknowledged that poverty reduction policies based on strategies of economic growth alone lead to skewed outcomes across geographical and social spaces (e.g. Chen and Ravaillon, 2004). As Dreze and Sen (1991: 10) argue, the issues of ‘widespread,
persistent deprivation’ and the ‘fragility of individual security’ in low-income countries cannot be adequately dealt with the ‘standard channels of economic growth and social progress’ alone, as is generally believed to have been the case with the high-income countries. They contend that such a belief is misplaced as the general improvements in the conditions of living in high-income countries have been achieved through various social policies and public expenditures in the areas of education, health, employment and food security; rather than through economic growth alone. Moreover, the Gross National Product (GNP) per head measurements of the prosperity of a nation may not be a true indicator of the capabilities enjoyed by its population at large. Such measurements do not take into account the inequalities prevailing in the distribution of incomes and variations of incomes over time in individual cases.

It has been observed that the personal needs are higher at the time of reduced incomes, such as when an earning member of a household is suffering from ill health. Such income fluctuations could be more efficiently dealt with if insurance and capital markets were well functional but that is usually not the case in respect of low-income countries (social protection has an important role to play to address this situation too). Even otherwise, high individual incomes may not necessarily imply enhanced capabilities especially in absence of other social provisions such as in the areas of health and education. This analysis thus indicates that ‘economic growth alone cannot be relied upon to deal either with the promotion or with the protection of living standards’ (Dreze and Sen 1991: 14). ‘Limitations of private markets in generating good living conditions’ may also render such strategies of social protection based on economic growth alone infeasible (Dreze and Sen 1991: 31). Moreover, as Platteau (1991: 163) points out, ‘[w]hile market forces and institutions may help in reducing the risk of hunger, particularly in so far as they increase self-reliance by diversifying sources of income and supply as well as market outlays, they also open the way for new sources of vulnerability’.

Dreze and Sen (1991: 32) further cite the experience of China, Costa Rica, Cuba, Chile, Jamaica, Sri Lanka to argue that it is not necessary to wait for high economic growth to achieve substantial improvements in the general living conditions for a large section of the population through appropriate public action. Experience of Hong Kong, Singapore, South Korea, UAE, Kuwait however suggests that economic growth may also be used as a basis to achieve social objectives through implementation of carefully designed social policies.
9.4 Social protection and economic growth in low-income countries

Although a growing body of literature suggests that there are positive outcomes of social protection programmes in terms of reducing poverty and vulnerability, especially in low-income countries, there is a concern that such programmes may adversely affect economic growth. The issue has not been studied in much detail in case of such countries. The literature on the relationship between social protection and economic growth in industrialised countries focuses on the adverse effects of especially the cash transfer programmes on supply of labour and propensity to save among the recipients, which dampens economic growth. Barrientos and Scott (2008) however did not find any empirical evidence in the low-income countries to support such concerns. Rather, they found that such theoretical predictions about reduced supply of labour was more than compensated by the positive outcomes due to re-allocation of work within recipient households. They also found evidence of increase in savings rate among the recipient households rather than a decrease predicted by the theory. This outcome may also be explained by the fact that insurance institutions are generally weak in the poorer countries and some portion of increased income due to cash transfers is likely to be saved. Citing South Korean example, Yu and Anderson (1992) argue that social protection programmes can be adopted in a low-income country while still maintaining economic growth rate, and such programmes do not impact the economic growth adversely.

Barrientos and Scott (2008), on the other hand identify three pathways through which social protection may contribute to economic growth. They may reduce credit constraints for the recipient households; they may secure their livelihoods thus encouraging them to use their resources more efficiently; and cash transfers targeting women may encourage more efficient resource allocation. World Bank also acknowledges that reduced risk to income and consumption as a result of social protection may allow the poor to accumulate and invest more and may thus further contribute to increase in their incomes and the economic growth in the process (World Development Report 2000/2001). Thus, well-designed and effectively implemented social protection programmes may promote ‘micro-level outcomes that are intermediate to growth’ (Barrientos and Scott 2008: 2).

9.5 Politics of social protection

Hickey (2008: 247) argues that the dominance of economics especially in the field of development studies has led to a more ‘technocratic focus’ on the social protection policies at the cost of political and political economic analysis of how such policies originated and were
shaped. According to him, such an analysis is important as different forms of politics shape different dimensions of social protection programmes (2008: 249), as the political factors responsible for initiating a programme may be very different from the politics needed to sustain them and that, in turn, may be different from the political issues associated with the identification of programme recipients. While analysing the social protection policies in Britain, France, and the US, Atkinson and Hills (1991: 105) also point out the ‘need for the analysis to range outside the purely economic’ factors and extend it to ‘understand the political influences on the design of policy’. Political support for a particular programme is very important for its sustenance. Political economy is thus crucial for the social protection (Atkinson and Hills 1991). It is also important, in relation to social protection, to distinguish a person’s entitlement and her being able to effectively enforce such entitlement. A person’s ability to effectively enforce her entitlements is influenced by a range of political economy considerations (Agrawal 1991).

The political and political economy aspect of social protection may be better understood in a framework of a social contract between the State and its citizens (Graham 2002) to consistently strive to improve the overall well-being and opportunities available to all the citizens (Barrientos and Hulme 2008). Expansion of tax-financed social protection after early 1980s in countries, such as Brazil can be interpreted as a consequence of a renewal of such a social contract (Barrientos and Lloyd-Sherlock 2003). Hickey (2008) argues that lack of such a binding contract may result in social protection policies being initiated due to factors such as political risk mitigation and become counterproductive. The concept of social contract is increasingly employed in social policy debates to justify State’s mandate to prevent injustice and promote equality (Jayasuriya 2002), while also justifying measures such as social protection (Ramia 2002). Thus, social contract not only offers an analytical tool to study the relationships of poverty with reduction of poverty, it also relocates social protection within the ambit of State policies to promote justice and equality (Ramia, 2002). Such understanding of social protection is important for it to be employed as a long-term measure to alleviate chronic poverty (Hickey and Bracking 2005) and promoted as a normative policy response to deprivation and vulnerability. A key challenge, in this regard is ‘to identify and support ‘politically progressive constituencies’, or drivers of change, that might begin to provide the forms of mobilization required to secure political contracts for social protection’ (Hickey 2008: 260).
Thus, to understand and contextualise the recent trends and developments within social protection, it is important to analyse them in microeconomic and political economy perspectives (Barrientos 2008).

9.6 Social protection and poverty
Social protection is being increasingly recognised as an important instrument to promote social and economic development (Fouarge 2003; ILO 2005). A large and varied body of evidence suggests that social protection programmes effectively contribute towards reduction of poverty and vulnerability (e.g. Barrientos and Lloyd-Sherlock 2003; Morley and Coady 2003). Poverty reduction policies based on strategies of economic growth alone lead to skewed outcomes across geographical and social spaces (Chen and Ravallion 2004). Social protection measures are therefore needed to deepen and widen the poverty impacts of economic growth (Bourguignon 2004). They help the households come out of poverty traps caused due to low incomes and limited opportunities. Social transfers, especially the conditional transfer programmes, promote enhancement of human capital (Barrientos and Scott 2008).

There is now a general consensus on poverty being multidimensional and caused mainly due to the constraints the poor face while attempting to participate in, and benefit from the economic activities and opportunities. Increased emphasis on social protection in low-income countries during recent times may be seen as a response to such understanding of poverty. The constraints that the poor face may have different explanations resulting in different approaches towards social protection as means of addressing such constraints (Barrientos and Hulme 2008a). Thus the overarching role and purpose of social protection may be to reduce social risk, satisfaction of basic needs, or contribute to human development through rights-based approach depending upon the strategies the policy makers adopt while addressing the aforementioned constraints (Munro 2008). Barrientos and Hulme (2008a), however, observe that over the last decade the focus of social protection programmes has moved from social risk and basic needs perspectives towards enhancement of human capabilities. They also mention that social protection has now ‘become one of the three main elements of national development strategies, with growth and human development... with a rapid scaling up of programmes and policies that combine income transfers with basic services, employment guarantees or asset building’ (Barrientos and Hulme 2008a: 19). The speed with which social protection programmes have been scaled up in the low-income countries over the last decade
is unprecedented. Barrientos and Hulme (2008: 327) estimate that the programmes in force may have a combined capacity to reach half a billion people in poverty. They also feel that such a scale of the programmes have the potential to significantly reduce global poverty. What makes them different from the earlier poverty alleviation and development programmes is that they are ‘focussed on the poor and the poorest’ (Barrientos and Hulme 2008: 328).

The evidence suggests that social protection programmes have the potential to alleviate suffering of a large population in poorer countries in the shorter run, while also contributing to overall human development in the longer run. Moreover, as Barrientos and Hulme (2008: 315) point out, ‘social protection has managed to avoid the ‘silver bullet’ syndrome and naïve replications that characterised social funds and much of microfinance in the 1990s’. The current challenge, according to them is to integrate a variety pf programmes to address different issues associated with poverty at different levels simultaneously.

**9.7 Social protection and microfinance**

The foregoing discussion demonstrates that microfinance and social protection constitute important micro-level responses to the persistence of poverty and deprivation in low-income countries. If these two strategies having common purposes converge, the efforts to reduce poverty may get stronger and more efficient.

Social protection programmes have the potential to make the poor attractive customers to microfinance programmes and other financial service providers. At the level of individual clients, the financial and other supports received by the clients under the social protection programmes may make them appear less risky to different microfinance programmes. The programmes may also make them use the microfinancial services more substantially thus generating more business and improving the revenues for such programmes. This may prove to be a good business proposition for mainstream financial institutions as well. According to Pickens *et al.* (2009), government cash transfer programmes have the potential to achieve scale faster than any other segment of banking business in retail sector due to the large number of their recipients. Extent of such payments is significant when compared to the recipients’ incomes and that may result in larger float revenues than that from other retail businesses of similar sizes. Frequency of cash transfers for longer terms also makes this business attractive for the microfinance institutions due to assured fee incomes. In addition,
Natu et al. (2008) suggest that steady stream of incomes for the recipients of such programmes may result in higher usage of bank accounts for this segment of people.

Microfinancial delivery channels on the other hand may improve the delivery efficiency of the programmes by reducing the monetary costs of, and delays in, delivery. The microfinancial services linked with the social protection programmes may also enhance the impact of such programmes. Using such services for delivery of social protection may reduce leakages in the programmes (Pickens et al. 2009). Pickens et al. (2009) claim that the recipients of the social protection programmes will use the financial products and services being provided in conjunction with such programmes if they are well designed and adequately meet their needs.

The above theoretical propositions have not been explored in detail and empirical studies to test them do not seem to have been conducted, at least in Indian context. This research intends to fill this knowledge gap and the gap in the literature on poverty.

9.8 Service delivery and administrative constraints

In addition to resource constraints, the low-income countries have to contend with low levels of institutional development that cannot support effective delivery of social protection (Burgess and Stern 1991). Barrientos and Hulme (2008) also admit that a major obstacle in extending the social protection to low-income countries is their lack of implementation capacity including the capacity to efficiently deliver the social protection provisions.

Administrative costs of the pension programme in Namibia were estimated to be around 15% of the total budget of the programme when delivered through the government agencies in 1996. In spite of such high costs, rural areas were not being adequately covered. Cash delivery was outsourced in 1996 and the delivery improved due to use of technology but it was still costing around 9% of the budget excluding the costs of the State agencies overall responsible for the programme (Schelberger 2002).

Barrientos and Lloyd-Sherlock (2002: 16) argue that organisation of the administration plays a major role in the success of cash transfer programmes. Social protection recipients are very vulnerable to administrative problems and even small delays can be associated with disastrous consequences. van Ginneken (1999: 13) holds ‘administrative bottlenecks’ responsible for the inability of developing countries in enrolling the widely-scattered informal sector workers in
various social protection schemes. He further points out that administrative costs to cover all such workers may be very high and if the administration is not ‘well organised’ (van Ginneken 1999: 33), it may result into corruption and leakages as well as in a phenomenon called “elite capture”. Dasgupta and Beard (2007: 230) describe local elites as ‘locally based individuals with disproportionate access to social, political or economic power’. They define the term elite capture as ‘the process by which these individuals dominate and corrupt community-level planning and governance’.

Platteau and Gaspart (2003) suggest that poor beneficiaries of any programme will not be able to claim their ownerships over the programme if the programme does not provide for sufficient opportunity and time to build up their organisational capabilities and bargaining power. It is also suggested that elite capture of the decentralised governance may be checked by improving internal as well as external accountability mechanisms including codification and enforcement of the desired conduct on part of all participants, holding of free and fair elections, participatory budgeting and monitoring, and instituting conflict resolution measures (Olowu, 2003; Hirschman, 1984; 1970).

Nature and extent of elite capture may also be partly determined by the flow of, and access to information. While reviewing community-based targeting schemes, Conning and Kevane (2002) observed that the ability of the communities to effectively mobilise information critically influenced the scope for elite capture. Abraham and Platteau (2004) also noted that African rural elites could capture a large share of benefits not meant for them due to uneven and constricted flow of information.

Against this background, this research explores whether engaging India Post in service delivery of various social protection programmes, especially those dealing with cash transfers, in conjunction with appropriate microfinancial services and products may overcome the service delivery constraints facing social protection, smoothen out the information flow and reduce elite capture of the programmes.

10 Conclusion
This chapter addressed and provided a comprehensive theoretical perspective on poverty, microfinance and social protection and identified issue constraining the service delivery of microfinance and social protection in low-income countries. Theoretical overview on microfinance and social protection suggests that these are micro-level responses to poverty in
the low-income countries. It may therefore be more efficient to employ the two strategies coherently and build on the strengths of each other. On another level, the evidence demonstrates that microfinance is not reaching a majority of poor households. Our current theoretical understanding indicates that this is largely due to microfinance products and services currently on the offer not being suitable to meet the financial needs of the poor, as also due to the prevalent institutional arrangements for microfinance delivery not being appropriately and adequately positioned to cover the poor households. I have argued at a theoretical level that the first causal factor may be addressed by developing mechanisms for microfinance to build on the social protection programmes that are increasingly becoming a significant part of the financial environment of the poor. This may be better accomplished by employing State institutions in designing and implementing such mechanisms, as the social protection programmes are largely initiated and implemented by government agencies. Moreover, such an arrangement of employing State institutions, especially the ones having wider reach, may address the current institutional service delivery constraints facing microfinance as well as social protection programmes.

This research set out to test the above theoretical propositions. It also explored whether India Post, a State institution with the widest reach among the institutions already delivering financial services, although currently with a limited scope, may be employed to deliver microfinancial services suitable to the meet the financial needs of the poor households while also efficiently delivering relevant social protection programmes. In addition to the theoretical analysis and the analysis of relevant data from secondary sources, empirical studies were designed to gain deeper understanding of the financial needs of the poor, the processes causing the exclusion of the poor households from microfinance, additional financial needs being generated by the enhanced availability of social protection provisions, and to explore the suitability of India Post for a synergistic delivery of microfinance and relevant social protection programmes. Following chapter describes the research design and methodology adopted for the research along with a detailed discussion on the philosophical underpinnings for such research design and methodology.
Chapter 3

Research design and methodology

1 Introduction

This chapter focuses on the design of research. This research is rooted in critical realism as it attempts to reveal the structures and mechanisms underlying and causing the observed phenomena at empirical levels. It first describes the basic tenets of critical realism that underpin my research, followed by the modes of inference I employed while answering my research questions. In the subsequent sections, I discuss the mix of methods adopted for this research, and their relevance to this investigation and the knowledge I have attempted to generate. The chapter concludes with description of data collection and analysis methods along with the validity issues for the research findings and their treatment.

2 Philosophical underpinnings for the research

This research is rooted in a critical realist worldview as it intends to investigate underlying mechanisms and structures causing and determining financial needs of poor households, and causing the phenomenon of the poor being excluded from the practices of financial service delivery, in Indian villages. It further investigates the emergent properties of a combination of social protection measures with the prevalent financial conditions of the poor households, in terms of generation of new financial needs. It then identifies the measures to correct the delivery constraints facing microfinance as well as social protection, and explores whether such measures may include the delivery of financial services, built upon social protection instruments, through the Indian postal network.

The critical social research originated as a critique of positivist ideas on social research on the basis of Marxian analysis of society and social change (Henn et al. 2006). As against positivist idea of science, critical social researchers are not value neutral and are concerned with generating knowledge with an aim to change the society for better (Humphries 1997). Critical social research is premised on the recognition that the goal of social research is ‘to understand the world in order to change it’ (Humphries 1997: 2.6). Critical theory is ‘founded on the idea that reason is the highest potentiality of human beings and that, through its use, it is possible to criticise and challenge the nature of existing societies’ (Blaikie 2000: 52, emphasis in original). The term ‘critical realism’ came into being to refer to a combination of Roy
Bhaskar’s ideas on ‘general philosophy of science’ (which he called ‘transcendental realism’) and on ‘special philosophy of the human sciences’ (which he called ‘critical naturalism’) (Bhaskar 1989: 190). It was subsequently elaborated and developed by Bhaskar himself along with other scholars such as Margaret Archer, Andrew Sayer, Derek Layder, Andrew Collier and Tony Lawson. Following sub-sections describe the basic tenets of the critical realist theory of social sciences.

2.1 Understanding the social world

Critical Realist theory implies that the human knowledge about the world (referred to as ‘transitive’ realm by the realists) differs from the world itself (referred to as ‘intransitive’ realm by the realists) (Carter and New 2004: 2). There is a general tendency in various branches of social science to mistake knowledge about the world as the world itself- which is the object of such knowledge. Bhaskar (1989: 133) regards this phenomenon as ‘epistemic fallacy’. Our knowledge about a social phenomenon may affect the phenomenon itself but the phenomenon is ‘existentially distinct from the processes through which we come to know [it]’ (Carter and New 2004: 3). ‘Things exist and act independently of our descriptions, but we can only know them under particular descriptions (Bhaskar 1975: 250)’.

Understanding of a social phenomenon may require us to understand its meaning, as well as the mechanisms and structures that caused such a phenomenon. While for hermeneutics, meaning is of paramount importance, for critical realists, meaning and the causal mechanisms and structures are of equal importance, and both are inter-determined. Meaning of a phenomenon depends on its cultural and material settings, whereas it is caused by various underlying mechanisms and structures. Social phenomena are generally theorised in terms of agency and structure ‘because of the fundamental nature of relationships [such theorisation] seeks to examine, namely that between human beings (the source of agency in the human world) and the social relations (structures) that are generated on the basis of their interaction’ (Archer 2000: 1). According to Archer (1995: 213), the social relations and contexts provide the people as agents with ‘directional guidance’ in terms of choosing their actions and acquiring and nurturing appropriate values and beliefs. The structural situations thus influence the agents without entirely determining their courses of action. The structures determine and therefore limit the options available to the agents while the agents can choose one or many options within the limits set on such options by their structural situations.
Four different schools can be identified within sociological research on the basis of their understanding of the relationship between the structure and the agency. The ‘structuralists’ believe that human agency is primarily determined by the social structures the human agents inhabit. For example, such social structures may be in the form of means of production and production relations in Marxist determinism, and in the form of discourses in a large part of postmodernist literature. The ‘voluntarists’ on the other hand accord primacy to the agency and explain the social structures entirely in terms of individual actions. Some of them, such as idealists and a large section of interpretivists, regard human thoughts as primarily responsible for the structures of the society. Social constructivists and ethnomethodologists regard human habits and conversations as the primary determinants of the social structures. Due to reduced importance given to the social structures in such schools, the richness and complexity of the structures is not adequately captured in the literature originating from such schools (Carter and New 2004).

Giddens (1984: 292; 1987: 645) extended the scope of the structure-agency debate by postulating that social structures are not always present, and exist virtually until ‘instantiated’ by the agents. While choosing a course of action, the agents take such structures into their account. The structures are then reproduced or modified because of such (social) action. Thus, neither the structure nor the agency has explanatory importance and their properties can be understood in conjunction with each other and cannot be separated even for an analysis or an examination.

Critical realists’ view in the matter is derived from their ontological claim that both structure and agency have distinct characteristics and powers, termed as *sui generis* characteristics and powers, in their own spheres. One of the principal characteristics of social structures is their *anteriority*, i.e. they precede the agency. For example, social and religious institutions, linguistic systems, and social and economic inequalities etc. preexist the individual human beings who are born in a world characterised by such structures. Thus, the structures are relatively more enduring than the agency and may further be enabling or constraining. For example, the financial delivery systems in my research are enabling for the non-poor while at the same time constraining for the poor.
Sui generis characteristics of human agency ‘include self-consciousness, reflexivity, intentionality, cognition and emotionality’ (Carter and New 2004: 5). The humans are thus capable of reflecting upon the implications of the social structures they inhabit and making efforts to modify or strengthen them in their own interests. Such efforts can be made at individual levels as a result of their being self-conscious. These can also be made at collective levels and may not require self-consciousness at the level of individuals while being part of such collective efforts. The characteristics and powers of the structure and the agency are irreducible to each other and thus do not support the ‘mutually constitutive structuration view of relationship between structure and agency’ (Carter and New 2004: 5). The critical realist account of structure-agency relationship also undermines the structuralist view, as in critical realism, the structures cannot be satisfactorily explained without taking into account the functionings and action of the agency. The anterior and enduring characteristics of the structures with their enabling and constraining implications serve to refute the primacy given to agency in the voluntarist view. In the critical realist view, the human actions can be understood and explained only within their given social structural context.

Bhaskar (1989: 40, 181) identifies three ontological domains, empirical, actual and real, required to analyse and understand the social world. According to him, the actual domain consists of phenomena, events and happenings, whether observed or unobserved, of which the empirical domain is thus only a subset. The real domain comprises of the actual and empirical domains as well as the mechanisms and structures, observed or unobserved, but known by their effects.

2.2 Powers of the objects, stratification and emergence

The objects have powers because of their structures, and mechanisms happen due to such structures. The structures cause exercising of such powers in the presence of ‘some “efficient cause”, e.g. the match lights when you strike it’ (Collier 1994: 43). That is how the mechanism generates an event. Such a generative mechanism is operational only in presence of a trigger. Even in the presence of a trigger, it may operate only when certain conditions or circumstances are available. There may be many mechanisms concurrently active and the actual outcome may be the combined effect of the operational generative mechanisms. ‘Taken together this- that objects have powers whether exercised or not, mechanisms exist, whether triggered or not and the effects of the mechanisms are contingent – means that we can say that a certain object tends to act or behave in a certain way (Danermark et al. 2002: 56, emphasis
in original). In most situations, there may be an unlimited number of combinations of objects and mechanisms at work having the potential to influence the manifestation of a particular causal power. Thus, there is always an uncertainty regarding the actual outcome in any situation. The empirical observations alone can therefore never substantially explain a phenomenon. This implies that ‘causal laws must be analysed as tendencies, which are only necessarily manifest in empirical invariances (‘patterns of events’, Bhaskar 1989: 39) under relatively closed conditions’ (Bhaskar 1989: 68). This offers an entirely different understanding of scientific laws. Such explanation may also need to consider unmanifested operations of mechanisms and objects. ‘The statements about tendencies are [therefore] transfactual, i.e., they say that objects are working independently of the factual outcome... (Danermark et al. 2002: 57, emphasis in original)’. The usual modes of inference, viz. induction and deduction may thus have a limited role in theory-formation in various social settings.

Critical realists argue that the world is not only differentiated but is also hierarchically stratified. The mechanisms and objects at lower strata combine to produce mechanisms of higher strata. Such combination produces something altogether new that cannot be reduced to the underlying strata. This phenomenon of creation of new non-reducible mechanisms and properties, along with the addition of each new stratum, is called “emergence”. The emergence further modifies the properties and powers of the constituents of the combinations producing it. These modifications with their emergent properties combine again to produce second and higher order emergent properties, making this world as an enormously complex entity. Dyke (1988: 64) suggests that it may be better to understand such a complex social world in terms of sets of nested structures affecting the agents as ‘a plurality of interpenetrating constraints deriving from many recognisable “levels” looping back and around each other’. Layder (1997) identifies four analytically distinct overarching social strata: psycho-biological and situated strata related to the domain of agency, and social settings and contexts that relate to structural domain.

Such understanding of stratified world with each stratum having its own emergent powers may have significant bearing on the scientific research as ‘fortunate consequence of the stratification of the world is that we don’t have to work back through all the successive constitutive strata in order to understand objects in any specific stratum’ (Sayer 1992: 120). In most situations, it is possible to take the underlying strata for granted and the research may
concern itself with the mechanisms constituting the stratum related to the research problem (Danermark et al. 2002). For example, in social science research the problem is not reduced to the people being biological entities, made up in turn of chemical components, these components themselves being made up of physical components and so on. The reductionist research on the other hand ignores the stratification and becomes regressive. Ignorance of stratification may also lead researchers, investigating relationships between variables at different strata (as is evident in many quantitative research projects), to ‘misidentification of causality’ (Sayer 1992: 120).

2.3 Purpose of social research

According to Bhaskar (1978: 13), the social scientific research should concern itself with the fundamental question, ‘what properties do societies and people possess that might make them possible objects for knowledge?’ In the critical realist view, this ontological question becomes the starting point of an agenda to know the reality rather than the epistemological questions concerning how such knowledge is possible. Thus, the fundamental task of research is to explain the social phenomena under study by identifying and revealing the causal mechanisms that produce them.

As the social world is stratified, the attempts to explain the world should go beyond the level of observed phenomena and events, to the levels of structures and mechanisms that generate them. Researchers may need to identify the structures, which, in combination, result in agencies exercising their powers to cause the outcomes that need explaining. The critical realists’ view of social understanding is ‘committed to an explanatory model in which the interplay between pre-existent structures, possessing causal powers and properties, and people, possessing distinct causal powers and properties of their own results in contingent yet explicable outcomes’ (Carter and New 2004: 6). Retroduction and abduction in such a situation become important tools for the social research (Danermark et al. 2002).

Sayer (2000) points out that all the social institutions and phenomena are concept-dependent. Thus, it is important to interpret the concepts and meanings associated with them before undertaking to identify their material effects and explain them in terms of their causal mechanisms and structures. According to realists, the ‘reality has an objective existence but that our knowledge is conceptually mediated: facts are theory-dependent but they are not theory-determined’ (Danermark et al. 2002: 8, emphasis in original). ‘[T]heory is increasingly
recognised as affecting observation...[and] the latter is said to be theory-laden (Sayer 1992: 46)’. The act of observation in itself is not an objective activity and is dependent on the level of observer’s knowledge and other conditions. ‘[T]he elementary structures of the world never escape the net of language and knowledge, as our knowledge (Layder 1990: 53, emphasis in original)’. This implies that the knowledge is fallible and is open to improvements.

Critical realists acknowledge that the social world is an open system and the experiments in a controlled environment such as in a laboratory are not possible in a social setup. This is not only due to the fact that the social world is characterised by an infinite number of variables, or that the humans are reflexive beings, but also because of the emergent nature of social interactions and relationships. Such emergence at various levels creates something of ‘structured messes’ that ‘prove notoriously recalcitrant to dissection into variables’ (Carter and New 2004: 16). Thus, it may not be possible to make predictions in a social setting but ‘based on an analysis of causal mechanisms, it is possible to conduct a well-informed discussion about the potential consequences of mechanisms working in different settings’ (Danermark et al. 2002: 1). Law-like regularities are possible only in the closed systems. Nature however does not provide entirely closed or open systems. It is only a matter of degree. The lower the strata, the more closed as a system it will be (Collier 1994). As social systems exist at higher orders of strata than the natural systems, finding law-like regularities for the social systems is more improbable than for the natural systems.

2.4 Research in social sciences

The research in critical realist terms starts with the conceptualisation of the observed patterns within the object of study and develops abstractions on the basis of its properties that appear to be causally significant (Sayer 1992). While doing so, the ‘social scientist will move back and forth between theoretical description of things and their inter relationships at various levels, and discovery and explanation of their properties’ (Carter and New 2004: 9). Abstraction allows the researcher to separate the characteristics of an object from its properties that are more contingent and identify ‘those properties which determine what a certain object is- its nature’ (Danermark et al. 2002: 45).

The social science objects are however relational and their existence depends upon their relations with other social objects. Such relations may be merely formal, for example, where the objects may be similar in some respects such as the persons of the same age. Other
relations may exhibit more substantial connections. Such substantial connections may be either internal and necessary, or external and contingent for the phenomenon under study. According to Bhaskar (1989a: 42), a ‘relation $R_{AB}$ may be defined as internal if and only if A would not be what it is essentially is unless B is related to it in the way that it is. $R_{AB}$ is symmetrically internal if the same applies also to B’. Internally related objects condition one another and constitute a structure when taken together (Danermark et al. 2002). Thus, according to Sayer (1992: 91) the structure of an object under study may be known by attempting to answer the questions on such relations, ‘[w]hat does the existence of this object (in this form) presuppose? Can it exist on its own as such? If not what else must be present? What is it about the object that causes it to do such and such?’ Danermark et al. (2002: 47, emphasis in original) elaborate it further: ‘What cannot be removed without making the object cease to exist in its present form? Relations external to a phenomenon under study are of no interest to the researcher’.

3 Modes of inference

Modes of inference are important for scientific research in order to know about the general on the basis of our knowledge of the specific. Inference consists of arguments, and procedures that allow the researcher to draw conclusions about a thing from something else. This may be a formal logical inference, or may be in the form of thought operations. Thought operations have a crucial role within critical realistic research. The basic aim of research in social sciences is to explain the social processes and phenomena. From the critical realistic perspective, such explanation implies ‘first describing and conceptualising the properties and causal mechanisms generating and enabling events, making things happen and then describing how different mechanisms manifest themselves under specific conditions’ (Danermark et al. 2002: 74). Abductive and retroductive modes of inference facilitate such investigations and explanations, and are invariably used in addition to induction and deduction in critical social research (Sayer 1992). The researcher’s task is ‘to explain the occurrence of particular events in terms of conjunctures of the causal properties of various interacting mechanisms- i.e. to retroduce the effective mechanisms’ (Porpora 1998: 343). Retroduction is described as ‘the move from knowledge of some phenomenon existing at any one level of reality, to knowledge of mechanisms, at a deeper level, or stratum of reality which contributed to the generation of original phenomenon of interest’ (Lawson 1997: 26). Abduction enables ‘understanding something in a new way by observing and interpreting this something in a new conceptual
framework’ (Danermark et al. 2002: 80). The new understanding of this something permits ‘possibly more developed or deeper conception of it’ (Danermark et al. 2002: 91).

This research started by acknowledging on the basis of secondary sources that the provisions of microfinancial services do not effectively reach the poor. Retroduction was employed to understand the underlying structures and mechanisms, causing such phenomenon, at the level of the microfinancial service providers as well as at the levels of the poor households in the villages selected for this study. Such structures and mechanisms at the levels of poor households also consisted of their financial needs and current methods of their satisfaction. These causal structures and mechanisms do not reside at the stratum of empiric, and thus, could only be understood as a result of thought operations by employing retroductive mode of inference. Such thought operations were informed and influenced by the account of the people engaged in delivery of the microfinancial services, people in receipt of such services, and the people excluded from the access to such services.

At another level, my research took into account a possibility that increased provision of social protection to the poor households might have further altered the financial circumstances of the poor and might have generated new needs for the financial services. Induction as a mode of inference was applied to develop an understanding of the nature and extent of such alteration, and to assess the new needs for financial services thus generated. A combination of inductive and deductive modes of inference was further employed to arrive at a more complete description of the financial implications of the increased availability of social protection at the level of individual households. Such a combination was achieved through a cyclic process as articulated by Wallace (1971) that involved repeated movements between empirical research and theorisation, using both inductive and deductive methods of reasoning. The generalised hypothesis that the provision of social protection has altered the financial environment of the poor households was tested against the empirical data by using deductive reasoning. It was then supplemented by patterns and generalisations emerging from the empirical research by using analytical inductive method of reasoning (see e.g. Henn et al. 2006: 201-02; Johnson 2004: 165-67). The hypothesis was further tested by using deductive reasoning after collecting additional data. Thus, formulation of theory proceeded simultaneously with the process of data collection.

Such understanding as was obtained while addressing the first three questions was utilised to explore whether the changing financial dynamics of the poor households has the potential to
substantially reduce the effects of structures and mechanisms causing the exclusion of the poor from the financial service delivery. Exploration as a research strategy was thus useful in determining if such changing dynamics may be channelled to provide the poor households an effective and efficient access to financial services and whether such channelling may also improve the impact of social protection programmes. Exploration was again employed to ascertain the suitability of India Post to deliver financial services to the poor households in the rural areas by taking into account the changing financial realities of such households. Exploration as a research strategy is often applied when not much is known about the problem being investigated, and there is a lack of clarity about the scope of the problem (Ryerson University 2007; Blaikie 2000). According to Vogt (1999: 105), ‘[s]ocial science exploration is a broad-mixing, purposive, systematic, prearranged undertaking designed to maximise the discovery of generalisations leading to description and understanding of an area...’. Maanen et al. (2001: v) claim that exploration is more inviting and accurate way of representing social research due to its ‘open character and emphasis on flexibility, pragmatism, and the particular, biographically specific interests of an investigator’. As this research was designed to be an intensive one, it was appropriate to use exploration in a substantial way as intensive research tends to be ‘exploratory in a strong sense’ (Sayer 1992: 244).

Exploration of the employability of post-offices in the delivery of financial service to the poor households in rural areas was taken up at three levels in a process described by Stebbins (2001: 12) as ‘concatenated exploration’ that refers ‘to a research process and the resulting set of field studies that are linked together, [and]... examines or, at times, reexamines a related group, activity, or social process as aspect of a broader category of groups or social processes’. At the first level, the extent of accessibility of the nearest post-office for the poor households was explored in the sample villages. It was also explored, at this level, whether the post-offices were suitably located, both geographically and socially, to provide financial services to the poor households given their prevalent financial environment. The extent of such suitability was assessed through focus groups of the members of the poor households. At the second level, semi-structured interviews of the personnel belonging to the local post-offices were conducted to explore their capabilities, as also their willingness, to deliver such services. Informal discussions were held with the policymakers at various levels within India Post to explore the acceptability and viability of engaging the post-offices with the delivery of financial services.
4 Research design

Critical realists argue that research in social science may be designed to be either intensive or extensive (Danermark et al. 2002; Harré 1979). Intensive research aims to uncover ‘substantial relations of connections’, while the extensive research investigates ‘formal relations of similarity’ (Sayer 1992: 243). Intensive research seeks to reveal the causal processes in a single case or a small number of cases, while extensive research attempts to identify common properties of an entire population (Danermark et al. 2002). My research was an intensive research as it sought to explain the phenomenon of microfinancial practices generally bypassing the poor and the very poor.

Intensive studies are generally qualitative, while extensive studies normally use statistical techniques. Statistical models ‘tend not to be concerned with explaining what it is about social objects which produces certain changes but with representing and calculating the effects of actions’ (Sayer 1992: 180). The explanation in terms of statistical correlations between different variables is not a critical realistic explanation (Nash 1999). Simultaneously rising and falling variables may provide some clues to the reality and can at best be the starting point for an explanation rather than the explanation itself (Byrne 1998). According to Danermark et al. (2002: 54), statistical investigations can never ‘inform about causes, they cannot produce explanations (though this term is much used in this context)’. A cause is entirely different from the statistical co-variance. What causes something can be known by the answer to the questions such as ‘what “makes it happen”, what “produces”, “generates”, “creates” or “determines” it, or more weakly what “enables” or “leads to” it’ (Sayer, 1992: 104). Olsen and Morgan (2005: 256) however argue that ‘it is still possible to provide a philosophical and practical defence of the careful application of analytical statistics in a way that is acceptable to sceptical critical realists, and indeed, to social theorists generally’. According to them, mixed methods including qualitative and quantitative techniques may be, in some cases, better suited to explain social realities than qualitative techniques alone. ‘[W]hat matters is how warranted arguments are built by the researcher who uses statistics (Olsen and Morgan 2005: 280)’.

Despite my training in Physics and Mathematics, I found qualitative techniques more suited to my research, as quantitative methods may not have been appropriate to unravel the ontological depths of social reality I set out to capture. As my research concerns with the understanding of social reality at different strata and explaining the social phenomena in terms of the causal
processes, qualitative methods were found more appropriate to generate its data and their analysis. Critical realist theory of causation requires ‘qualitative analysis of objects...to disclose mechanisms’ (Sayer 1992: 179). ‘Qualitative research is a situated activity that locates the observer in the world (Denzin and Lincoln 2005: 3)’. Qualitative data are based on words or images, which generally result from observing and interviewing people, while the quantitative data are usually measured in and expressed by the numbers (Olsen and Johnson 2002). ‘The word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured (if measured at all) in terms of quantity, amount, intensity, or frequency (Denzin and Lincoln 2000: 8)’. According to Tesch (1990: 3), ‘qualitative data...now means any data... that cannot be expressed in numbers’. ‘Through qualitative research we can explore a wide array of dimensions of the social world, including the texture and weave of everyday life, the understandings, experiences and imaginings of our research participants, the ways that social processes, institutions, discourses or relationships work, and the significance of the meanings that they generate... (Mason 2002: 1)’.

The qualitative data for this research was collected by entering the world of the poor households in the selected villages to investigate ‘their construction of reality, their way of conceptualizing and giving meaning to their social world, their tacit knowledge… in order to discover the motives and reasons that accompany social activities’ (Blaikie 2010: 19). My epistemological stand for this research is that the knowledge of the nature, extent, underlying causes, and manifestations of financial needs of the people and the role of financial services in reducing their poverty can be generated by observing and experiencing the real-life settings of such people. Such knowledge can be further enriched by engaging in interactive conversations with them, and gaining access to their accounts and articulations (Mason 2002). These kinds of settings, situations and interactions helped me to construct a multidimensional representation of the social reality under investigation along with the mechanisms and structures with their emergent properties. I was able to better interpret the reality in such situations because of my ‘shared experiences...or by developing empathy with the researched’ in these circumstances (Mason 2002: 85).

5 Research methods

Critical realism does not provide a specific method for social research and there is ‘no such thing as the method of critical realism’ (Danermark et al. 2002: 73). The critical realists
maintain that the social science practice is a practical activity and thus the decisions on the methods for such study should be based on practical considerations such as the nature and character of the object under study and the purpose of the study (e.g. Sayer 1992: 4). The purpose of my study, and the nature and character of social phenomena I investigated, determined the research methods I chose to employ for this study, viz. qualitative interviews and participant observation.

Henn et al. (2006) point out that qualitative interviews and participant observation are among the most commonly methods used in qualitative research. Qualitative interviews have low structural requirements from the interviewer, consist mostly of open-ended questions, and investigate particular actions and situations within the respondent’s world ‘rather than abstractions and general opinions’ (King 2004: 11). According to the realist approach, the data generated by such interviews contain factual account of people’s situation and their lives and can be based upon while investigating the causal processes (Silverman 2000). Sayer (1992: 245) mentions,

By contrast [with formal standardised questionnaire], with a less formal, less standardised and more interactive kind of interview, the researcher has a much better chance of learning from the respondents what the different significances of circumstances are for them. The respondents are not forced into an artificial one-way mode of communication in which they only answer in terms of the conceptual grid given to them by the researcher. This also enables the researcher to refer to and build upon knowledge gained beforehand about the specific characteristics of the respondent, instead of having to affect ignorance (tabula rasa) in order to ensure uniformity or ‘controlled conditions’ and avoid what might be taken as ‘observer-induced bias’.

As a part of interviewing process, I conducted individual interviews as well as the focus groups. While both individual interviews and focus groups aim to generate data that ‘accurately reflects the thoughts, feelings, and opinion of respondents’ the purpose of focus groups is ‘to stimulate discussion among people and bring to the surface responses that otherwise might lay dormant’ (Henn et al. 2006: 164). As the critical realist epistemological position necessitated ‘a concern with the accuracy of accounts’ (King 2004: 12), the interview findings were triangulated with the findings from the participant observation in the field and the transect walks. ‘Triangulation does not just validate or strengthen data sets...it offers ways to enrich data analysis methodologies (Olsen 2002: 2)’.

Participant observation ‘involves social interaction between the researcher and informants in the milieu of the latter’ (Taylor and Bogdan 1984: 15). In participant observation, the researcher’s experience is regarded as a legitimate and reliable source of data (Brewer 2000). According to Waddington (2004: 162), participant observation affords ‘an excellent
opportunity to observe the creation and exchange of key social ideas’. Participant observation was employed in all the six sample villages along with the individual interviews and focus groups. The observation allowed me to crosscheck the information provided by the interviewees. On many occasions, it led to my approaching the same respondent for the second and third round interviews. At the same time, the object and focus of the observations were continually shaped by the insight gained through the interviews. In-depth knowledge on the actual situation in the area of research was further generated by undertaking transect walks in the area along with the people (Abbey and Attaran 2007; Simanowitz 2000; World Bank 1999; Park 1999; Whyte 1991). Initial walks were used as a part of the process of ‘entering the field’ (Waddington 2004: 155), while later walks enriched the knowledge of the context of the study. The walks also afforded me an opportunity to witness interplay of various mechanisms and structures that informed the causal analysis for this study.

Laws in positivist literature refer to universally applicable statements describing regularities. In critical realism, however, laws can only be formulated and understood in terms of tendencies. Knowledge regarding such tendencies may be adequately acquired by using qualitative case study as a research method (Danermark et al. 2002). Case studies focusing on individual households were therefore conducted to have a deeper investigation into the crucial issues emerging through the application of the aforesaid methods. Gerring (2007: 20) defines the case study as ‘the intensive study of a single case where the purpose of that study is at least in part- to shed light on a larger class of cases (a population)’. The aim of conducting case studies is ‘to provide an analysis of the context and processes which illuminate the theoretical issues being studied’ (Hartley 2004: 323). According to Stake (2000: 435) the case studies ‘draw attention to what can be learned from a single case’. He describes the kind of case studies I conducted as ‘instrumental case studies’ where ‘the case is of secondary interest, it plays a supportive role, and it facilitates our understanding of something else’ (Stake 2000: 437).

While conducting the case studies, the respondent households were chosen from the set of poorest households identified by the BPL families through the wealth-ranking exercises. The set of indicators developed for ‘a CGAP operational tool on assessing the relative poverty of the microfinance clients’ (Henry et al. 2000: 8) were used to profile such households. List of indicators is reproduced at Appendix 1. The case study respondent households were collaborated with to make a detailed assessment of the extent of fulfilment of their financial
needs at present and the measures to be taken for addressing the remaining unfulfilled needs. The collaboration was guided by the unstructured interviews, and my participatory observation of their day-to-day activities. Six case studies, one from each sample village, are placed in Appendix 2.

6 Data collection

The data collection plan for this research was guided by the general assumption of critical realism that ‘structures exist but ...they are geographically diverse and changing over time’ (Olsen 2008: 3). Primary data for the research was collected from two villages each from the states of UP, Gujarat, and AP in India. UP and AP are at the two extremes of the spectrum of microfinance penetration (lower and upper, respectively), while Gujarat lies in the middle region of the spectrum (Fouillet and Augsberg 2007; Ghate 2007; Sriram and Kumar 2007). Gujarat was selected also because many aspects of microfinance originated in the state due to its rich tradition of people’s cooperatives. The villages were sampled from Kanpur Dehat district in UP, Dahod in Gujarat, and Khammam in AP. The districts were selected on the basis of their economic backwardness as also because they are largely rural districts with sizeable population of socially and economically depressed Scheduled Caste (SC) and/or Scheduled Tribe (ST) communities. One of the sample villages in all the three states has a post-office, while the other is without a post-office. One of the sample villages in each state was relatively larger with a rather heterogeneous population in terms of social and economic classes. The other sample villages were smaller, consisting predominantly of SC households in UP, and ST households in Gujarat and AP, without much disparity in the conditions of living.

During the visits to the villages, anthropological tools were employed to get a grasp on historical, cultural and social context of the villages. Overall economic environment was assessed and extent of monetisation of the economy was gauged. Availability of different financial services in the villages was mapped and extent of accessibility of services for different segments of population was estimated. Focus group discussions were organised in all the villages by organising various homogeneous groups within local communities on the basis of caste and economic conditions. The findings were enriched by taking part in spontaneous discussions at the farms, paan shops, tea stalls, provision stores, bus stand, ration shops, local-
level government and panchayat\textsuperscript{13} offices, schools, \textit{Aanganwadis}\textsuperscript{14}, and with traditional social leaders and the small groups of people in the public spaces of the villages playing cards or just gossiping and passing time. I also attended nine meetings of SHGs in the four villages, which proved to be very informative.

As in other qualitative studies, this research employed ‘theoretical sampling’ that ‘leads to the selection of respondents where the phenomena in which the researcher is interested are most likely to occur’ (Henn \textit{et al.} 2006: 157). The focus of research being on the poor, the households officially categorised as located ‘below poverty line (BPL)’ were selected for the study by collecting the latest data on the BPL lists from the concerned government departments in the districts. Wilson (2004: 1) describes the household as ‘a site of production and reproduction, and the basic economic decision-making unit’. For the purpose of this research, BPL lists were taken as the basis of defining a household. In case of any local disagreement with the BPL list, the people sharing the same living space and the same kitchen were considered to be belonging to a single household.

BPL lists in India are often criticised for leaving out some of the poor households. The households identified as very poor through the wealth ranking exercises and the informal discussions with the other people in the villages, otherwise not included in the BPL lists, were therefore also selected for the study. As the purpose was to interview the poor households and not necessarily the poorest on any strict set of criterion, simple wealth ranking exercises were carried out in all the sample villages with at least three groups of villagers at different points in time and space. They were asked to identify the criteria to assess the poverty of a household and then rank different households in the villages in descending order of poverty. Such data generated by three different groups of villagers was then compared and collated to arrive at a common list of the poor households. The interviews were conducted on the basis of such lists. The members of the SHGs and clients of the MFIs, otherwise not in the BPL lists, were also interviewed. The respondents also included the post-office clients consisting of the widow pensioners in Gujarat and the National Rural Employment Guarantee Programme (NREGP)\textsuperscript{15} beneficiaries. At least one adult member was accordingly interviewed from all the households at Barakheda, 43 households at Pratappur, 41 at Andhari, 45 at Kankari Dungari, 34 at Bachalakoyagudam, and 85 households in Kaikondaigudam. These were followed by in-depth

\textsuperscript{13} Village-level elected local government
\textsuperscript{14} Government-run village crèches
\textsuperscript{15} NREGP, and widow pension schemes in Gujarat are discussed later.
discussions at purposively selected one poor household in each of the six sample villages. Interviews were conducted within the housing premises of the respondent households, and on many occasions, all the adult residents participated in answering the questions that substantially enriched the information. Details of the respondent households along with their social backgrounds in each of the sample villages are tabulated below:

Table 3.1: Details and social backgrounds of the respondent households for qualitative interviews

<table>
<thead>
<tr>
<th>Village</th>
<th>Number of respondents</th>
<th>SC respondents</th>
<th>ST respondents</th>
<th>BPL respondents</th>
<th>Non-BPL respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pratappur</td>
<td>43</td>
<td>38</td>
<td>-</td>
<td>39</td>
<td>4</td>
</tr>
<tr>
<td>Barakheda</td>
<td>23</td>
<td>20</td>
<td>-</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Andhari</td>
<td>41</td>
<td>-</td>
<td>30</td>
<td>39</td>
<td>02</td>
</tr>
<tr>
<td>Kankari Dungari</td>
<td>45</td>
<td>-</td>
<td>45</td>
<td>45</td>
<td>00</td>
</tr>
<tr>
<td>Kaikondaigudam</td>
<td>85</td>
<td>31</td>
<td>54</td>
<td>85</td>
<td>00</td>
</tr>
<tr>
<td>Bachalakoyagudam</td>
<td>34</td>
<td>-</td>
<td>34</td>
<td>34</td>
<td>00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>271</strong></td>
<td><strong>89</strong></td>
<td><strong>163</strong></td>
<td><strong>254</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

In addition, discussions were held with the local bank managers, post-office personnel, state government employees looking after development works, and field workers and management staff of the NGOs and MFIs working in the area. These discussions provided insights into overall financial environment of the villages as also the constraints being faced in delivering the financial services, especially to the poor. Efforts were also made to contact the unlicensed moneylenders operating in the villages (none of the villagers was found being served by a licensed moneylender). Only one person however admitted informally that he was involved in moneylending. Organisational practices within India Post were investigated through informal and semi-structured interviews with the top management and the personnel managing local post-offices in the three states. Business data available through various official reports and on the website of India Post were analysed to inform our findings. Field studies were conducted over 18 months in the period between January 2008 and February 2010. Interviewing senior postal and other government officials in New Delhi and the state capitals took about two months. More than two months were spent in each village.
According to King (2004), the realist interviews are more structured than the other types of qualitative interviews. The guide for the interview therefore turned out to be more structured than is normally the case with unstructured qualitative interviews. Guide for qualitative interviews in the villages and the indicative questions to interview the local post-office staff are appended as Appendix 3.

7 Analysis of data

The interviews were recorded using a digital recording device and were transcribed while still being on the fieldwork. The audio recordings and the transcriptions were both used to analyse the data, as according to Silverman (2001: 230), ‘the reliability of the interpretation of the transcripts may be gravely weakened by a failure to transcribe apparently trivial, but often crucial, pauses and overlaps’. I tried to address this constraint by taking notes after the interviews and made attempts to interpret such pauses and hesitations in the text, while in the process of transcription itself.

As part of the categorising strategy to analyse the data (Maxwell 1996), I made multiple soft copies of all the interview transcripts and kept together the excerpts from various transcripts relevant to a particular issue to permit comparisons among the interviews and draw conclusions accordingly (Henn et al. 2006). Different excerpts of ‘segments of texts’ were classified according to the themes and were coded as per the contents of such segments (Tesch 1990: 86). As is generally the case with qualitative analysis, coding was not a mechanical, well-structured process. Rather, the codes were ‘retrieval and organizing devices that allow the analysis to spot quickly, pull out, and then cluster all the segments relating to particular question, hypothesis, concept or theme’ (Miles and Huberman 1984: 56). The coding was a continuous process and was applied to the data generated through the interviews as well as through the participant observation. It proceeded along with the analysis of the data and was informed by such analysis. This resulted in some codes being revised, others broken down to sub-codes, while some others being rejected altogether.

The analysis of the field notes on participant observations was compared with the analysis of the interview data with the help of the coding system, and the findings were verified, contrasted and enriched. This process was continued alongside the data collection process. Theoretical insights, thus emerged, were continually tested and refined. Entire data was however analysed manually without requiring any software support. Interviews were
conducted in Hindi, Gujarati and Telugu languages in the states of UP, Gujarat and AP respectively. I understand and speak Hindi and Gujarati, while for Telugu, I engaged a translator who translated the interviews in spoken English.

I had obtained permission to use names of my respondents while interviewing them, and have used some names while analysing the data and presenting my findings.

8 Validity

While discussing validity in qualitative research, Maxwell (1996) identifies two broad issues, researcher bias and reactivity, which may act to compromise the validity of research findings. Researcher bias arises from the researcher’s own preconceived notions and theories that may influence her selection of data and its interpretation. Reactivity refers to ‘[t]he influence of the researcher on the setting or individuals studied’ (Maxwell 1996: 91).

Researcher bias was a real threat as I have had my working association with the post-offices in India, microfinance and poverty reduction programmes. I therefore selected the area for my fieldwork where I had never worked in any capacity so that I can have a less biased view on the situations and mechanisms prevalent in those areas. The fact that I was aware of such a bias even before undertaking this research project may have further helped me to reduce the bias.

Reactivity is always a factor in the social setups with residual feudal values, such as those prevalent in Indian villages. It becomes even more significant while interviewing the poor who are also socially depressed. In my research, I tried to address the reactivity issues by staying at the villages for long durations. Initial transect walks across the villages also helped. As reactivity was a bigger issue with the interviews than with the participant observation, as is rightly pointed out by Maxwell (1996), I started interviewing people only after two to three weeks of my stay in the villages. As a researcher, I did not find it very difficult to observe different levels of reactivity among my respondents. Such observations helped me in my attempts to minimise the effects of reactivity. I also ensured to interview all my respondents more than once, and in all cases, levels of reactivity were observed to be considerably reduced in the second and subsequent rounds of interviews.
9 Ethical considerations

Ethics in research are concerned with finding a balance between benefits of undertaking an activity as part of the research and risks for harm due to that activity (Boeije 2010, Cassell 1980). For a social science research project to be ethical, ‘the dignity, rights, safety and well-being of participants must be the primary consideration’ (Broom 2006: 152). According to Lipson (1994), ethical issues are less obvious and are often less clear in qualitative research than those in experimental or quantitative research. These issues arise because of close and long-term personal involvement of the researchers with their informants. Respective roles of the researchers and their researched often become less-defined and fuzzier in qualitative research than in the positivistic research where the interactions between the researchers and their subjects are limited and are often discouraged. ‘In fact, mandates of qualitative research itself, to form relationships and become close enough to informants to see the world through their perspective, create ethical issues, such as those coming from conflict or porous boundaries between the roles of researcher, friend, and clinician (Lipson 1994: 334)’.

In addition, as was the case with me, the professionals embarking on an intensive, qualitative research face a dilemma about their role. They aim to collect the relevant information useful to their research but at the same time they wish to advise and help their informants (Johnson and Macleod Clarke 2003). Their informants may also ‘continue to see them in their role as service professionals, which leads to expectations that are different from the researchers’ interests’ (Boeije 2010: 53). Moreover, there tends to be an extra dimension associated with a Civil Servant engaging in research of this nature in India that people, while narrating their difficulties, start expecting that their problems will be addressed at the level of government. Such interactions raise their expectations and it hurts them when these are not fulfilled. I tried to be extremely careful in this regard and explained to everybody in great detail that my interactions with them were for purely academic purposes and in no case my knowledge about their situation is going to make any difference in their situations as individual households. I was able to avoid such phenomena of expectation-raising through my long periods of stay and very long discussions with my informants.

Hutchison et al. (1994) acknowledge that some participants may feel better after participating in a qualitative research project and the act of participation may prove to be cathartic for them. Deep reflection on their life situations may help them to analyse the events of their lives in a
different perspective and may enable them to make better sense of their experiences (Sque 2000). On the other hand, in case of some other participants, as I witnessed in my research, in-depth questioning about their deprivation and vulnerabilities tended to heighten their sense of powerlessness and helplessness. Such discussions seemed to make them even more uncomfortable with the difficulties of their situations. This seemed to be an inevitable consequence of a research of this nature and I hope that they are able to channelise such enhanced awareness of their conditions into a political force that helps them to improve their economic conditions and thus their well-being.

According to Cassell (1980), ethical issues in the conduct of fieldwork primarily involve the violation of privacy or confidentiality especially when the findings are disseminated or published. The greatest harm according to her in such cases may be the feelings of anger and hurt on the part of the informants. For my research, I digitally recorded all my interviews and focus group discussions. Before the discussions/interviews, I explained to them in detail the purpose of these interactions and obtained their informed consent to record and use the material in my research and writing of my thesis. I obtained similar consent from my informants for using the material of my informal discussions, which were not recorded. I have in general avoided using the names of my informants in the thesis. While obtaining such consent, I also informed my informants about the methods I was going to use to protect their privacy including not mentioning their names.

I have however used the actual names for the six case studies placed in Appendix2 where it was felt essential for the purpose of emphasising on certain issues. In all these cases, I obtained explicit permission of the informants to use their names and revealed the information gathered from them in my thesis in such a way that it would not cause any harm to them.

10 Conclusion

This chapter discussed the design and methodological aspects of the research along with the justification of their being employed for this research and their philosophical underpinnings. It also described selection of sample states and villages, and the justification of such selection. Methods of data collection, analysis of the data and validity issues were discussed. The following chapter provides historical and contemporary Indian perspectives on the major themes of this research in order to contextualise and build upon the theoretical understanding developed in chapter 2.
Chapter 4

Poverty, microfinance, social protection, and post-offices: Historical and contemporary perspectives from India

1 Introduction

This chapter scans the available literature to estimate the extent of poverty in India, which is followed by an analysis of the causes of poverty in India. Evolution of financial systems and microfinance in India is traced through various historical eras. Prevalent structures and mechanisms delivering microfinance are analysed and various estimates of microfinance coverage are then discussed. It is argued that the current methods and models delivering microfinance are not adequate to target the poor, and hence it is essential to explore other mechanisms to increase the penetration of microfinance in India. A historical account on social protection in India is presented and the reasons for the current politically favourable environment for such programmes are analysed in the historical perspective. Service delivery constraints facing social protection programmes in India have been captured from the relevant literature. Evolution of the postal system in India is discussed in its historical perspective. Such perspective is further utilised to inform the analysis of the current external environment of the postal system and its response to such an environment.

2 Measuring the extent of poverty in India

As has been discussed in chapter 2, poverty is a complex phenomenon and depends on various economic, social, and environmental variables in a multi-dimensional space. Any attempt to measure it therefore poses many difficult questions. If one method captures certain variables adequately, it tends to neglect several others. Public policies aimed at reducing poverty, based on any of such measurements, may cater to some segments of population while leaving out many other households requiring such policy supports. Measurements are however still required for want of any other alternative basis for policy formulation. There are generally four broad approaches to measure poverty and income inequalities: absolute poverty measures approach; absolute income measures approach; relative poverty measures approach; and relative inequality measures approach (Blackwood and Lynch 1994, summarised in Appendix 4). Each of these measures is steeped in the particular historical, social, political, and ethical values of the era of their development. The policy makers normally choose a measure of
poverty that exhibits the best impact of their policies on poverty alleviation (Blackwood and Lynch 1994).

Most popular and often used measurements of poverty involve estimating a minimum income level to define a poverty line and considering an individual earning less than that income as poor. Poverty lines in many countries including India are still largely based on rather limited subsistence conception of poverty. Official estimates of the poverty line in India are primarily based on an Indian Council for Medical Research (ICMR) - specified norm of intake of 2,400 calories per capita per day for rural areas and 2,100 calories per capita per day for urban areas. The estimates of poverty are made from the large sample survey data on household consumer expenditure conducted by the National Sample Survey Organisation (NSSO) of the Ministry of Statistics and Programme Implementation. The data are collected for Uniform Recall Period (URP)-consumption and Mixed Recall Period (MRP)-consumption. In the URP, the consumer expenditure data are collected for all the items from 30-day recall period while in MRP, the consumer expenditure data are collected for five non-food items, viz. clothing, footwear, durable goods, education and institutional medical expenses from 365-day recall period, and the consumption data for the remaining items are collected from 30-day recall period.

The estimates reveal that income levels, defining poverty lines, are different in different states. According to the estimates of Planning Commission of India for the year 2004-05, the poverty line income for rural areas ranges from INR 292.95 per capita per month for Andhra Pradesh to INR 478.02 per capita per month for Uttarakhand. For urban areas, such incomes range from INR 378.84 for Assam to INR 665.90 for Maharashtra, Goa, and Dadara Nagar Haveli. The poverty line at all-India level is then worked out from the expenditure, class-wise distribution of persons (based on URP-consumption) and the poverty ratio at all-India level. The poverty ratio at all-India level is obtained as the weighted average of the state-wise poverty ratio. Accordingly, the poverty line for India as a whole is estimated to be INR 356.30 for rural areas and INR 538.60 for urban areas for 2004-05. Based on these criteria, as many as 301.72 million people, i.e. 27.05% of the total population in India were living below poverty line on the basis of URP-consumption in 2004-05. On the basis of MRP-consumption, 238.499 million people, constituting 21.8% of the total population, were found living below poverty line in 2004-05 (Planning Commission of India 2007a).
These estimates may be off-target to a large extent in view of the fact that the food prices prevailing in the year 1973-74 were used as a basis to calculate the cost of food specifying the poverty line. Figures of inflation were then used to arrive at the cost for the year of the construction of poverty line. Such costs did not reflect the current real prices of the food due to factors such as global food crisis. If the base year for calculating the cost of food is advanced to 2004-05 from 1973-74, the poverty lines, according to Sethi (2008), would be about INR 600 for rural areas, and about INR 1000 for urban areas. This will substantially increase the number of poor in India.

It is also worthwhile to contrast the official definition of poverty line in India with that of the World Bank for developing countries like India; which is US$ 1 (in 1985 purchasing power dollars) per capita per day or US$ 30 per capita per month. Even when we apply the conversion rate of INR in terms of US dollars at 2004-05 levels [US$ 1 = INR 44 in 2004-05], the official poverty line at all-India level works out to be US $ 8.09 per capita per month for rural areas, and US$ 12.24 for urban areas for the year 2004-05. If the World Bank standards for poverty line are applied in Indian situation, the segment of population living below the poverty line will be much more than what the official statistics suggest. Different estimates suggest that on the World Bank standards, more than 75% of all Indians are below the poverty line (George 2007; India Watch 2006). According to Guruswamy and Abraham (2006), the poverty line income in India is barely enough to satiate the hunger and is not nutritionally adequate. If securing nutritional diet and other basic needs is taken into account while calculating the poverty line, as many as 68-84% people would be found living below such poverty line according to their estimates. The National Commission for Enterprises in the Unorganised Sector (NCEUS)\(^\text{16}\) estimates that 77% of India’s population was sustaining with INR 20 (less than US$ 1) per person per day on an average in 2004-05. Other estimates on chronic poverty suggest that more than one third of chronic poor of the world are located in India (e.g. Shepherd and Mehta 2006).

3 An analysis of the causes of poverty in India

Poverty in India has both historical and geographical manifestations. Scheduled Caste (SC), Scheduled Tribe (ST) and other backward communities have been historically marginalised in

\(^{16}\) NCEUS was set up in September 2004 by the government of India with a mandate to ‘review the status of the unorganised/informal sector in India including the nature of enterprises, their size, spread and scope, and magnitude of employment’. Terms and conditions for NCEUS and the reports it submitted are available on its website www.nceus.gov.in.
social as well as economic domains and have been suffering from multiple deprivations. In spite of affirmatory action by the successive governments, such as job reservations, their marginalisation continues, and they constitute the majority of poor people in India (Gaiha et al. 2007; Kozel and Parker 2003; Lanjouw and Stern 1991). On the other hand, certain geographical areas, due to lack of natural resource endowment and also due to lack of infrastructural development keep perpetuating poverty among their inhabitants. In the rural India, agriculture still remains the core economic activity. It contributes about 27% to the Indian GDP but employs more than 66% of the total working population of the country. This, according to Mahajan (2000), explains why a large majority of the people in rural India have to survive with very low incomes. Moreover, there are certain social groups which suffer from deprivations due to their locational and social structural factors, and are more likely to be poor than other social groups, such as the older people, destitute, physically disabled, and women-headed households.

At micro levels, the people who suffer from acute poverty are the ones who lack physical, financial or natural assets, and largely depend on their human resources and social capital to earn livelihoods. Quality of their human resources is low and thus they are trapped in low wage and irregular employment, interspersed with long periods of unemployment (Breman 2010). Their near relatives and neighbours constitute their social networks, but they are equally poor and cannot help them overcome their poverty situations (Mehta and Shah 2003). A strand of current research on poverty concerns itself with identifying ‘drivers’ (reasons for the people becoming poor) and ‘maintainers’ (reasons for the people remaining poor) of poverty (Shepherd and Mehta 2006). Krishna’s (2004) study in the state of Rajasthan identifies high expenses on healthcare, expenses on life-cycle events such as marriage and death, and indebtedness with high-interest loans as most perceived reasons for the people falling into poverty and remaining poor.

Economic growth in India is largely driven by high-technology sectors such as services and Information Technology (IT). Agriculture and manufacturing sectors, which have the potential of generating large number of employments, have not been contributing much to the India’s growth story. A substantial portion of working population therefore remains unemployed or under-employed and reproduces poverty. Impressive economic growth of India has thus not impacted the poverty adequately. Breman (2010: 43) points out that during the ‘years of high growth’, ‘the majority of the informal sector workforce made only negligible progress or none
whatsoever’. According to an International Monetary Fund (IMF) report (Topalova 2008), rate of growth of Indian GDP from 1983 to 1994-95 was 3.11%, while it grew at a rate of 4.43% from 1993-94 to 2004-05. The population living below the poverty line was reduced from 45.2% to 35.8% to 27.5% in the corresponding periods. Thus, the annual rate of reduction of poverty was 2.08% from 1983 to 1994-95; and was 1.67% from 1994-95 to 2004-05 (taking 1983 as the base year). It is therefore evident that the rate of reduction of poverty decreased substantially after introduction of the economic reforms, which arguably ushered the country in an era of high economic growth. Drawing from the Income Tax data, the report infers that the top 1% of the population saw an increase of 70% in their incomes from 1994-95 to 2004-05. Such increase in income was even more impressive for the top 0.01%; which amounted to as much as 200%. The report therefore concludes that ‘in the 1990s, the top of the population enjoyed a substantially larger share of the gains from economic growth compared to the previous decade’ (Topalova 2008: 22). This, according to the report, had ‘significant effects on income inequality, which grew within states, across states, and between rural and urban areas’ (Topalova 2008: 22). According to the US business magazine Forbes, the wealth amassed by Indian billionaires, numbering merely 53, at the end of 2007 was estimated to be $340.9 billion, amounting to 31% of the country’s total GDP. In comparison, the Chinese billionaires command about 3% of its GDP, while the American billionaires, 11% of American GDP (Jha 2008). On one hand, more Indians figured in the Forbes’ list of top ten billionaires than the people from any other country at the end of 2007, while on the other hand, India inhabits the highest number of hungry people on earth (Patel 2008). Adiga (2008) argues that ‘amidst the hoopla and hype of the economic boom, the poor are more invisible than ever before, and the dangers of ignoring them are greater than ever before’.

Literature investigating the causes of poverty in India can be categorised in three broad streams, while allowing for some overlaps (Mehta and Shah 2003). The structuralists attribute prevalence of poverty to unequal distribution of factors of production, mainly, land and capital. As the poor have a very limited supply of the factors of production, they are unable to participate in the process of economic growth. They are also unable to adequately access the health and educational infrastructure due to their assetlessness and thus most often fail to build up their capabilities. The situation is compounded due to continued social exclusion and discrimination. Others view the prevalence of poverty as a manifestation of inequitable economic growth across different geographic areas and various social groups. The situation, according to them, can be corrected by developing and nurturing institutions, and deepening
and widening the markets so that they can effectively reach the marginalised. They believe that better outreach of institutions and markets, supported by appropriate technology would facilitate the economic growth to trickle down to the poor. Some others however believe that the absence of social protection measures and safety nets for the poor and vulnerable perpetuates poverty among them. According to them, it may not be feasible to correct the distributional aspects of poverty, or the inequitability of economic growth in the given politico-economic environment, but availability of social protection measures help in correcting the poverty situations to a large extent.

4 Relevance of microfinance, and social protection

As is mentioned in the foregoing section, it may not be feasible to address the inequality of distribution of factors of production in the prevailing politico-economic conditions in India. There is substantial evidence indicating that the attempts to redistribute land as part of land reforms met with little success due to social and political reasons (e.g. Osmani 1991), except in West Bengal (Mehta and Shah 2003; Webster 2000). However as Webster (2000: 324) points out ‘not all states have the same preconditions for political space for poverty alleviation as West Bengal, in particular the role that political parties have played’. The efforts to reduce the poverty therefore may need to be focussed on creating and developing appropriate institutions, and widening and deepening the markets. Microfinance can play a major role in developing such instruments to fight against the poverty. At another level, strategy to combat poverty may involve initiating and expanding the various social protection measures.

Following sections take historical and contemporary perspectives on microfinance and social protection in India.

5 A historical perspective on microfinance in India

5.1 Microfinance in ancient India: Informal and indigenous finance

Microfinance in India can be traced back to several centuries in the form of informal and indigenous finance. Two distinct strands of informal finance were prevalent in ancient India, namely moneylenders and merchant bankers. Moneylenders mostly offer credit products through their own financial resources against collaterals which are much higher in value than the amounts of credit. The rates of interest are flexible and are normally determined on the basis of urgency of the needs of the borrower and competition in the moneylending market. Moneylending appears to have had its roots in gift-exchange and mutual lending-borrowing
agreements, but it became an ‘organised and subsequently regulated profession in India around 1700-2200 years ago’ (Seibel 2005: 6). Moneylending institution still continues in the country, despite efforts of the government to curtail it, and serves an important purpose of smoothening the consumption for the poor.

Merchant banking as a system of financial intermediation was developed in many parts of India around the first century B.C. The merchant bankers offered a range of financial services from deposit taking and lending to discounting of bills and promissory notes, money-changing, and safekeeping of valuables. By the second century A.D. it was a well-regulated profession as is described in the Dharmastrastras and smritis (scriptures containing codes of law and religion). The early smritis (writers of smritis) laid down norms for regulating pledges, sureties and rates of interest. The post-tenth century evidence throws additional light, in so far as we are informed about the strong presence of land, cattle, grains, cloth and houses for raising loans’ (Shrimali 2002: 18). The Manusmriti (the smriti written by Manu Swayambhu) prescribes a rate of interest of about 15% per annum for the secured loans and much higher rates for the unsecured loans. Interest rates on unsecured loans were flexible and ranged from 2% per month on loans to a Brahmin17 to 5% per month to a Shudra18, which perhaps reflected caste-based risk assessment. More importantly, there was also a provision of social banking through interest-free loans to the poor and the people without any resources (Schrader 1997 cited Seibel 2005). As the supply of money was limited and the poor had very low access to the high-in-demand coins, the repayment of loans and the interests was also realised through the demand of food grains and the milk products. The evidence also suggests of a widely prevalent practice of charging interest in the form of kayika or physical labour (Sharma 1983).

5.2 Systems of money supply and credit in medieval periods

Bagchi (2002: xi) mentions that the supply of metals used for coinage declined in India during the early mediaeval periods and the users of money tried to substitute it with ever-expanding credit networks. Evidence from the periods also indicates towards many other aspects of such networks bearing a close relationship with the changing socio-economic formation. The detailed laws on the growing practice of loans and the introduction of land in the mechanism of the early mediaeval mode of interest highlight aspects of an economy characterised by

17 The “uppermost” caste in the Hindu caste-hierarchy
18 The “lowest” caste group consisting of largely SC and ST communities
limited monetary transactions and the lesser capacity of the lower castes to repay their debts (Sharma 1983).

Prakash (2002: 40) points out that an outstanding feature of the Mughal Indian economy was the existence of a highly sophisticated and efficiently run monetary and credit system. While the economy remained largely agricultural, but within agricultural sector important institutional and other developments took place which had far-reaching effects. Most important of such developments was restructuring of the land revenue system during the reign of Akbar [1556-1605 AD] which prompted a continuous shift away from the collection of land revenue in kind to that in cash. The shift may have been gradual but it led to the growth of money economy in India in a substantial way. As the land revenue was charged at the rate of 40% to 50% of gross agricultural output and accounted for an overwhelming proportion of gross national output, such shift towards monetisation must have been extremely significant for the economy. Prakash (2002: 41) further suggests that required growth in the volume of monetised transactions would have been possible only under a situation of continuously rising supply of money and also its velocity of circulation. The system of minting of money was organised under strict State supervision and the major clients of such minted money were the professional dealers in money known as sarrafs. The sarrafs constituted the core group around which the money-and-credit markets were organised in Mughal India.

Supply of money and credit also played a crucial role in establishment of British rule in India. According to Bagchi (2002: xii), any State having a trade deficit with the rest of the world would face a shortage of coins. It would be adversely affected economically unless there were financiers who were willing and able to lend their resources to it. The services of such financiers would however be useful only in cases of the temporary problem of the shortage of cash. The States having a shortage of coins due to persistent trade deficit required a public credit system, supported by a consistently expanding revenue-raising capacity of the State to avoid depression and contraction of their economic base. Such public credit systems allowed these States to borrow money from lenders regularly and serviced the debts according to the contracts made at the time of borrowing. These systems could not be effectively created in Mughal India as the country enjoyed a consistent trade surplus and the rulers needed the financiers only at the time of wars or similar exigencies.
The financiers remained subordinate and loyal to the rulers as long as the Mughal central authority was strong and firmly established. The situation however changed after 1712, when the central authority weakened and gave rise to a number of smaller states fighting with each other. Later, when the Indian financiers realised that the war machinery of the British was superior to that of the local rulers, their loyalties shifted and the British could easily finance their war-efforts. ‘Thus the Indian Princes opposing the European marauders not only failed to match the European technology of warfare on the sea and land, they could not create a State structure that would depend on the credit of a mass of loyal subjects rather than that of a small group of financiers whose loyalty would shift as they saw the fortunes of their erstwhile patrons seriously threatened, or who would actively conspire, for the reasons of short-sighted gain, against their patrons (Bagchi 2002: xvi).’

5.3 **Microfinance in the colonial periods**

According to Bagchi (2002: xi), ‘a strong continuity is found in the institutional basis of the use of money and credit in the domestic economy of India from the late sixteenth century under Mughal rule and the late nineteenth century under British rule’. The colonial periods however witnessed development of two more strands of microfinance in India: Rotating Savings and Credit Associations (ROSCAs); and cooperative thrift and credit societies.

ROSCAs or the chit funds (as these are usually called) evolved from a simple mechanism of a group of people getting together regularly, pooling their savings and allotting the amount to one member on the basis of draw of lots or demonstrated needs. Another variant of this mechanism was also found in many parts of the country where the amount collected was allocated to the lowest bidder through an auction and the balance was returned to the members. As the chit funds grew in size and volumes of transactions, possibilities, and occurrence of frauds increased and a need was felt to regulate them. First of such attempts was made through Travancore Chit Act of 1945, which was followed by other acts and laws attempting to incorporate the chit funds in the formal financial sector. Finally, after a series of debates and discussions, Chit Funds Act was passed in 1982, recognising chit funds as legalised non-banking financial entities.

The British government of India initiated the cooperative thrift and credit movement on the lines of the highly successful German Raiffeisen movement of savings and credit cooperatives (Seibel 2005). This was in response to the growing demand of the industry to revitalise the
agriculture by improving the conditions of peasantry for stimulating the industry and trade. Heavy indebtedness of the peasantry was also gaining attention in various reports of collectors, surveys, and famine commissions. In 1904, the Government of India enacted the Co-operative Credit Societies Act, followed by the more comprehensive Co-operative Societies Act in 1912. The Acts provided a framework for promoting financial self-help among farmers and artisans. In order to achieve tighter supervision over the cooperatives, the Government of India Act of 1919 transferred the authority over cooperatives to the provinces, which were authorised to enact their own co-operative laws. The growth of the cooperative societies however remained very slow, especially outside the Bombay and Madras Presidencies and Punjab. The total number of members of agricultural societies for the whole of India in 1935 was, for example, just above three million (Bagchi 2002: xxxv). After the Independence, various committees appointed by the Reserve Bank of India recommended further extension of the cooperative movement and inclusion of activities such as animal husbandry in the domain of rural cooperatives. However, over a period of time, self-help and self-reliance of the cooperatives were undermined by well-meaning State interventions (Sisodiya et al. 2005).

5.4 Initiatives towards financial deepening after Independence

After Independence, the government of India adopted an interventionist role as it was evident that the credit needs of the poor, especially in rural areas, were not being met. The financial institutions found the poor unbankable as they did not have any collateral to offer. Moreover, the legal system was not adequately strong and efficient to enforce the security contracts. Insurance, whether life or non-life, had not reached rural India. The government, in response, tightened the regulations over cooperative credit societies, nationalised the banks, fixed quotas for priority-sector lending for the banks, subsidised the interest rates for such lending, and established regional rural banks for providing financial services in rural areas. Although the government interventions caused financial deepening which was partly responsible for India’s economic growth from mid 1970s to early 1980s (Sen 2007), it distorted the rural credit markets. The credit did not reach the ones for whom it was meant. A substantial portion of loans was defaulted and the measures proved to be counter-productive for the poor (Meyer 2002; Binswanger and Khandker 1995; Adams et al. 1984).

The studies on the subject reveal that if the interest is not charged according to the market rates, the credit results in income transfers to the borrowers. As the bigger farmers receive larger amounts of loans, the income transfers are greater in their case. Thus subsidised credit
increases the already existing income inequality. Information asymmetry further worsens the situation as it leads to credit rationing. Big farmers are never rationed, while the middle-level farmers are rationed, and the small and marginal farmers are mostly screened out. When the inflation rates are high, cheap credit becomes even more attractive to the better off of the society. High demand for the cheap credit causes it to be allocated in return for political benefits or doled out as favours, rather than being disbursed on the basis of actual need or efficiency (Mohan and Prasad 2005; Mahajan and Ramola 1996; Yaron 1994; Braverman and Guasch 1986; Stiglitz and Weiss 1981).

Beginning of 1970s witnessed some innovative methods of providing credit to the rural poor around the world and particularly in Bangladesh. Inspired by such efforts and in response to the still non-inclusive rural credit market, the modern form of microfinance took shape in India.

6 Analysis of microfinance delivery methods and models in modern India

In addition to the traditional cooperative credit societies and chit funds, the microfinance products in India are currently dispensed through the two broad mechanisms: (a) Microfinance Institutions (MFIs), which may be Non Government Organisations (NGOs), or Non Bank Finance Companies (NBFCs); and (b) Self Help Group (SHG)-bank linkage.

6.1 NGOs as MFIs

The NGOs, by the nature of their work and their constitution, are believed to be an alternative to the bureaucratic, top-down development approach of the governments through their participatory, bottom-up development models. Deeper examination of such beliefs however reveals that activities of most NGOs are not participatory, their decision-making is top-down; they do not necessarily reach the poor (e.g. Smith 1987; Anheier 1990; Hossain 2001). Their projects use only known techniques in new areas without making much effort to innovate. Many projects undertaken by the NGOs reflect the agenda of their donors rather than addressing local needs (Hossain 2001). Leaders and management of a majority of NGOs are not accountable to their constituency or their organisation (Ebrahim 2003).

NGOs are credited with highlighting the need of financial services by the poor, and importance of such services in reducing their poverty. Their capability to make the financial services effectively and efficiently available to the poorest and at remote places is however questionable. According to ADB (2000), operations of most NGOs are highly inefficient and
they suffer from governance problems due to heavy reliance on the donor funds. Such inefficiency and ‘lax management practices’ among the microfinance NGOs have resulted in ‘limited outreach, high loan default rates, and unsustainable operations’ (Bhatt and Tang 2001: 321). Most NGOs also lack financial experience and technical abilities, essential for carrying out microfinance activities sustainably and efficiently. Mahajan (2000: 16) points out that ‘the major source of funds of NGOs is grants, which are very limited’. Moreover, NGOs in India are either registered as societies or trusts and due to the legal requirements they cannot have any equity capital. NGOs being charitable organisations, cannot earn a major part of their incomes through the lending activity according to the regulations governing Income Tax in India, and thus they cannot engage in microfinance substantially (Mahajan 2000). Due to these reasons the financial sustainability and microfinance outreach of the NGOs in India has been very limited (Sinha and Patole 2002; Nair 2001).

6.2 NBFCs as MFIs

According to the 1998-99 union budget of India (Government of India 1998: chapter 35), there are three types of NBFCs operating in India: ‘(a) those accepting public deposits, (b) those not accepting public deposits but engaged in financial business and (c) core investment companies with 90 per cent of their total assets as investments in the securities’. NBFCs belonging to the first two categories only are eligible to engage in microfinance activities. They work on the premise of what is called the ‘self-sustainability approach’; that the poor can have long-term benefits from the microfinance, only when sustainability of institutions delivering microfinance is ensured, market rates of interest are charged, and all the other financial and non-financial services are provided on a commercial basis. The premise is described by Morduch (2000: 617) as ‘win-win proposition’ that is, the ‘microfinance institutions that follow the principles of good banking will also be those that alleviate the most poverty’. However, Morduch (2000) and most studies on the outreach of such MFIs (including NBFCs in India, e.g. Smith 2006) point out that this proposition does not work in most situations and such MFIs end up catering to the people above and just below the poverty line and not the poorest and destitute. Chao-beroff (1997) further argues that profit motives might lead such MFIs to choose urban clients over the rural ones, especially those in remote areas due to cost-effectiveness of the delivery and lower risks of default.
6.3 *SHG–bank linkage (SBL)*

SHGs are informal organisations of women (although there are some men SHGs or even mixed SHGs, but they are very rare). The number of members in an SHG does not exceed twenty to avoid the registration of any kind (their average size is 14 according to Ghate 2007: 20). SHGs are organised by either the NGOs or some other self-help promoting agencies such as government organisations or the banks. Members of the SHGs are required to meet at regular intervals of usually a month and compulsorily save fixed small amounts in each meeting. The promoting organisations after organising the groups facilitate them to be linked to a local bank by opening savings accounts in their names. The collected savings are initially used to extend small loans to the members. After continuing to save, and lend internally along with successful repayments, for a minimum period of six months, the SHGs are eligible for obtaining bigger loans from the banks.

The SBL model was conceptualised and promoted by National Bank of Agriculture and Rural Development (NABARD) in association with some NGOs, notably MYRADA (originally known as Mysore Resettlement Area Development Agency). The model is credited to have significantly contributed to the growth of microfinance in India and is widely recognised as India’s contribution to microfinance innovation. However, it is arguably not an appropriate vehicle to reach microfinance to the remote and backward areas of the country as the banks have low levels of penetration in such areas. The model is highly inflexible and is primarily based on involuntary savings and dispensing microcredit to the small groups of clients. It therefore fails in responding to the needs of different clients for different products. Moreover, although group lending offers an excellent mechanism of social collateral for the people who normally lack any sort of physical collateral, it turns out to be costly in terms of training and orienting the group members, attending the group meetings, monitoring the group members, and time spent in creating a viable group (Bhatt and Tang 1998). Additionally, the loan terms are limited by what the group feels that it can jointly guarantee. Clients with growing businesses or those who get well ahead of their peers in scale therefore find that the group contract bogs everyone down (Majewicz 1999). Besley and Coate (1995) also describe certain conditions when borrowers may collude against the bank and undermine the bank’s ability to harness the social collateral. Thus the SHG-bank linkage mechanism suffers from its inherent structural deficiencies.
Ghate (2007: 21) admits that neither the MFIs nor the SBL model ‘is exclusively focussed on those below the poverty line’. According to a survey by EDA Rural Systems and APMAS (2006), only 51% of the total clients of the SBL model were living below the official poverty line. An earlier large-scale survey by the EDA Rural Systems (2005) for a sample of 20 MFIs revealed that as many as 57% of their clients were non-poor.

7 Estimates of microfinance-coverage in India

Although a robust database is not available for the Indian microfinancial sector, rough estimates suggest that institutional microfinance presently covers only a small percentage of its potential clients and there is a considerable scope for developing this sector. According to an estimate by Menon (2005), India’s demand for microcredit was INR 500 billion of which only an amount of INR 18 billion had been generated. Bhatt (2006) mentioned that there was an annual credit need of INR 6000 per household for 80 million families in India while microfinance had been able to reach roughly 10% of those who needed it. Asher and Shankar (2007) estimated that there were around 800 MFIs in India which covered 7.3 million households (about 35 million persons), of which about half could be classified as poor. Direct and indirect linkages between SHGs and banks covered around 22 million households or over 100 million persons. They further estimated that combined disbursement of MFIs and the SHG-bank linkages was around INR 200 billion (equivalent to only 0.6% of GDP) in March 2006. According to an estimate by Ghate (2007: 27), there were about 2.2 million SHGs with about 31 million members, only about half of which being poor, as on March 31, 2006. The total number of poor households in India is estimated to be about 75 million. Many of the SHG members have multiple-memberships and are also extended the MFI coverage. Thus not more than 25% of the poor households are covered under any of the two microfinance delivery models. Many of these households are yet to benefit from any sort of credit and are involved in involuntary savings only (Ghate 2007).

It is therefore important to engage wider participation of agencies and structures beyond the SHG-bank linkage and NGO/NBFC MFIs, to deepen and broaden the microfinance base so that it can have a greater impact on poverty in India. In this perspective this research aims to explore whether postal network in India, India Post, may be employed to deliver financial services to the poor who are currently excluded from microfinance.
8 A historical perspective on social protection in India

8.1 Social protection in ancient and mediaeval India

There has been a considerable debate on whether social protection systems existed in the precapitalist societies in the ancient and mediaeval historical periods. Moral economy approach, propounded by Scott (1976) argues that social protection systems encompassing all their members were inherent in the structures of such societies. Such a thesis is however strongly refuted by Popkin (1979) who insists that social protection was almost totally absent in many precapitalist societies. Platteau (1991) suggests taking a middle path while acknowledging that several social protection mechanisms were available in precapitalist village societies. Such systems had their own limitations but were still the ‘second best optima given the many constraints confronting these societies’ (Platteau 1991: 161). These systems however weakened due to emergence of modern forms of market and State. Moreover, the new economic realities, particularly those caused by market forces, generated new vulnerabilities, which could not be addressed through traditional systems (Gilbert 1976).

In traditional Indian society, parental responsibility as a value of joint family system was of paramount importance in protecting all family members (Bhattacharya 1970). Many social mechanisms also developed to protect the people from adversities. An example of such mechanisms was Shreni (guild) system prevailing during fifth century B.C. until about second century B.C. it provided decent livelihood to all its participants (Thaplyal 2001). State was also actively involved in securing the lives and livelihoods of its citizens in the ancient India as can be made out by Arthashastra, Chanakya’s treatise on finance, politics and public administration in the fourth century B.C. He advises the king that ‘in the happiness of his subjects lies the king’s happiness; in their welfare, his welfare. He shall not consider as good only that which pleases him but treat as beneficial to him whatever pleases his subjects’ (cited in Kannan and Pillai 2007: 8).

Kannan and Pillai (2007: 8-9) also describe Chanakya’s ideas on public welfare that made the king as well as the people responsible for such welfare. It was the responsibility of the head of the family to provide for the whole family. Nobody was allowed to become ascetic before ensuring the continued well-being of the other family members. The king was required to maintain social order, promote economic activities, protect weaker sections of the society, prevent their harassment, protect the consumers, and take care of aged people, children and
women. King was also advised to ensure welfare of even the slaves and prisoners. The State was required to bear the maintenance cost of the family of a government servant dying in harness. Chanakya also advised the king to remain prepared to protect his subjects from the natural calamities. Extensive famine relief measures, such as public distribution of food grains and seeds at concessional rates, initiating public works and providing food as wages, were also suggested in the Arthashastra. Many remnants of public works created as measures of famine and hunger relief are still found all over the country. Interestingly, Chanakya was against giving any doles, and the people receiving State help (such as widows, old prostitutes and convicts) were required to work in State-run cloth spinning units. In spite of such elaborate mechanisms described for public welfare, Chanakya does not mention provision of health and education as the duty of the State (Kannan and Pillai 2007).

Such ideas continued to guide the State throughout the ancient period after Chanakya as is borne out by Shukracharya’s treatise on justice, Shukraneeti, in the eighth century A.D. He further expanded the system to also include comprehensive welfare of the servants. It was suggested that the servants were entitled to old age and maintenance allowances. Servants were required to be paid three-fourths of their usual wages for a maximum period of six months in case of their falling sick and being unable to work. Premature death of servants entitled their families an allowance equivalent to half of their salaries (Bhattacharya 1970).

Not much account is however available of the State’s role towards general welfare of the people during mediaeval periods. Such role is found increasingly performed by the religious organisations, charities, trusts, caste associations and the village communities during Mughal rule and post-Mughal period (Kannan and Pillai 2007).

8.2 Social protection in colonial period
Colonial system witnessed a disruption in the traditional social fabric due to introduction of capitalistic mode of production and promotion of export of raw materials for the British industries. Such a change brought with it institutional developments such as modern legal and judicial systems, uniform administration, standardised land revenue systems, railways, and Posts and Telegraphs. These initiatives paved the path of uniting the Indians as a nation as pointed out by Karl Marx (1853), and raised their collective strength to demand more rights and greater welfare. Changes in agricultural production systems and production relations, along with some of the foreign policies of the British government in India, led to massive and
recurrent famines (Bhatia 1985; Sen 1982). After initial reluctance, the government initiated famine relief measures that were successful in reducing mortality and frequency of famines and no major famine was encountered between 1902 and 1943 in the country. The last major famine that affected Bengal encouraged the government to control the trade in food grains and expand the urban public distribution system (Kannan and Pillai 2007).

The mainstream struggles for Independence, whether peaceful or armed, had reduction of large-scale poverty and inequality as part of their objectives, but the overarching objective was to achieve Independence. Although many movements including peasant movements in various parts of the country at different points in time did focus on economic issues affecting the common people, such issues were largely left to be addressed after the achievement of Independence (Nath 2006).

8.3 Social protection initiatives after Independence

After Independence, the policymakers sought to achieve poverty alleviation by way of economic and infrastructural growth through planning processes. Redistribution was also attempted in the form of land reforms. Land reforms were however not successful in most states beyond zamindari abolition, partly because they were introduced without considering the social and economic relationships between the landowners and tenants, and the general power equations in the villages (Osmani 1991). Labour regulations, on the other hand, acquired increasingly pro-labour character in response to continued pressure exerted by the trade unions.

Natural calamities such as droughts and food shortages in the 1960s and early 1970s necessitated a direct attack on poverty. Such emergencies, combined with the political developments at the Centre, led to initiation of *garibi hatao* (eliminate poverty) campaign consisting of various anti-poverty programmes, targeting the small and marginal farmers, landless labourers, and drought prone areas. The campaign also reoriented the planning processes towards taking direct measures to reduce poverty along with the measures for economic growth.

The 1974-79 Five-Year Plan proposed a National Minimum Needs Programme (NMNP) and identified areas including rural health, elementary education, rural water supply, rural roads, rural electrification, nutrition for young mothers and children, environmental improvement of
urban slums, and housing for rural landless labourers. The next Five-Year Plan resulted in implementation of Integrated Rural Development Programme (IRDP) targeting the BPL households for subsidised credit for creating assets, inducting technology and imparting trainings, and rural employment programmes involving public works, such as National Rural Employment Programme and the Rural Landless Labour Employment Guarantee Programme. Due to emphasis on poverty reduction and resultant programmes, a considerable reduction in rural as well as urban poverty was achieved between 1973-74 and 1986-87. The rate of poverty reduction has slowed down since then due to economic liberalisation policies adopted to address the low rates of economic growth (Deaton and Drèze 2002; Datt 1999).

Panagariya (2008) strongly correlates the increase in the rate of growth of Indian economy to the process of reform and liberalisation and claims that it has also led to substantial reduction in poverty. Reports of the National Commission for Enterprises in the Unorganised Sector (NCEUS) however clearly show that the people engaged in informal employment, constituting 93% of India’s total workforce, are steeped in poverty and that their deprivation has not been reduced substantially during the period from 1993-94 to 2004-05 associated with large-scale reforms in Indian economy. According to such reports, the employment growth rate plummeted during this period to 1.85% on an average from over 2% on an average in the immediately preceding ten years. More importantly, such growth in employment was almost entirely limited to the informal sectors of economy. This did not help the people, additionally employed during this period, to come out of poverty. Real wage growth rate also fell during this period. NCEUS thus concludes that the substantial jump in the economic growth was not translated into employment generation and enhancement of incomes for a large number of Indians.

Quality of employment was also found to be adversely affected in general during the period of high economic growth due to a process of informalisation of a section of formal sector workers, and job-cuts in government and public sectors. Increased tendency to outsource various types of work to contractors in the formal, including the government and public, sectors also contributed to this phenomenon (Breman 2010; Pais 2002; Visaria and Jacob 1995; Bhaduri 1993). Such informalisation, associated with low wages, longer working hours, and

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19 arguably ‘the largest single national effort in the world to encompass the characteristics and needs of what is known as the informal sector’ (an ILO official cited in Breman 2010: 46)
general lack of employment and social security further contributed to poverty among the informalised workers and deteriorated their living conditions.

Breman (2010) argues that the claims of poverty reduction due to economic growth caused by liberalisation of economy are largely based on the assessment of benefits accrued to the section of population possessing some means of production such as land, equipments or other forms of petty capital. Poor, however, lack resources and thus means of production, and sell their low-skilled or unskilled labour to earn livelihoods. They do not gain from increased growth rates in the economy. According to him, high levels of growth in Indian economy have greatly benefited the upper and middle classes, having means of production and/or formal sector employment, while a large section of population engaged in informal employment has not been able to participate in the Indian economic growth process. Increase in productivity with stagnating employment, during 1993-94 to 2004-05, as pointed out in the NCEUS reports, may also mean that the labour has been exploited even more during the period of high economic growth than before (Breman 2010). Topalova (2008) also demonstrated that that the rate of reduction of poverty decreased substantially after introduction of the economic reforms.

Although economic performance of India has been observed to be much less affected by the global meltdown than most other world economies after 2008, the meltdown has severely affected informal sector workers adversely in terms of lack of employment opportunities and wage cuts, as is revealed by various micro level and sectoral studies (e.g. Hirway 2009; SEWA 2009). ‘In contrast to capital which is bailed out in the economic recession, labour seems to have taken the brunt in the policy dealing with the effects of the downturn (Breman 2010: 44)’.

On the issue of relationship of rising inequality with economic liberalisation, Panagariya (2008) does not have evidence to refute the claims of Deaton and Drèze (2002: 3740) regarding ‘strong indications of a pervasive increase in economic inequality in the nineties’. Deaton and Drèze (2002) further claim that this is an unprecedented development in the context of Indian economy. Role of capital, particularly in informal sector, may provide an analytical tool to explain the rising inequality in the face of economic growth. Due to greatly skewed bargaining power between the owners of capital and labourers in the informal sector, the labour gets paid meagrely and therefore return to capital is much higher in informal sector than the formal sectors (Breman 2010). Increase in informalisation associated with recent high
growth rates in Indian economy is therefore likely to have contributed to increased inequality. ‘[A]n unconditional reliance on the free interplay of market forces in order to maximise economic growth is adhering to a road map which produces more deprivation for the segments down below and more wealth for those higher up...[and additionally,] the ongoing squeeze at the bottom is directly related to the accumulation of surplus at the top (Breman 2010: 45)’.

Thus, while labour regulations in the organised sector were achieved due to a protracted struggle of workers, other measures of social protection involving workers in the unorganised sector were initiated after realising that economic growth in itself does not contain mechanisms to make it inclusive. Variety and scale of such programmes was increased in response to the evidence that enhanced rate of economic growth caused by the economic liberalisation is resulting in greater inequality. The recent initiatives towards social protection in India thus need to be viewed in the context of rising inequality due to economic reforms, persistent poverty in spite of the reforms, and the consequent political compulsion to provide additional policy spaces to those left out of the growth processes. However, as pointed out by Panagariya (2008), the economic growth did enable the government of India financially, with increased levels of government revenues, to initiate the new social protection programmes and upscale the existing ones.

9 Social protection programmes selected for this research

As the poor households are the focus of this research, the protection measures for the organised sector workers were not included in this study. Out of a plethora of the programmes for the unorganised sector workers, only those concerned with direct transfer of cash or making significant contributions to the general financial environment of recipient households were selected for this study. Selection was also based on the criterion that at least a part of the programmes should require to be delivered through some kind of financial delivery channels in order to explore their possible linkages with the microfinance and provision of financial services. Programmes on health and education, although very important part of social protection strategy in India, were therefore not included in this study, as specialised agencies already exist for their delivery. Identifying measures to raise their effectiveness, efficiency and coverage would require altogether different efforts beyond the scope of this work.

Following social protection programmes were accordingly selected for this study:

1. Subsidised food programmes [Targeted Public Distribution System (TPDS) and Antyodaya]
2. Cash transfer programmes [National Social Assistance Programme (NSAP) including old age, widow and disability pension schemes]
3. Rural housing subsidy programme [Indira Awas Yojana (IAY)]
4. Wage employment generation programme [National Rural Employment Guarantee Programme (NREGP)]
5. Self-employment generation programme [Swarna Jayanti Gram Swarojgar Yojana (SGSY)]
6. Group insurance programmes [Aam Aadami Bima Yojana (AABY) and Janashree Bima Yojana (JBY)]

I also studied the implementation of the component of Total Sanitation Campaign (TSC) involving the financial support to individual households to construct latrines in rural areas, as provision of constructing latrines is normally linked with IAY subsidy. All the selected programmes are centrally sponsored and are thus available in the three states under this study as well as in other states. Funds for such programmes are largely provided by the government of India but their implementation entails sharing a part of the financial burden by the state governments. Scale of implementation of different programmes thus varies among the states depending upon the extent of their contribution. Brief description of the selected programmes constitutes Appendix 5.

10 Service delivery issues and constraints facing the selected social protection in India

Available evidence on service delivery of the selected social protection programmes, including the evaluation studies of the programmes by the Planning Commission of India, almost unanimously points out several deficits in the delivery of various social protection programmes. These relate to misidentification of the programme beneficiaries due to both type I (exclusion) and type II (inclusion) errors (e.g. Suryanarayana 2008; IAMR 2008; Ajwad 2007; Ramaswami 2005; Planning Commission 2005; Srivatsava 2002; Gaiha 2000; Pandey and Pant 2000) as well as to corrupt practices, rent seeking by the administration and delivery agencies, and elite capture of the schemes (e.g. Jha et al. 2009; Cheriyan 2006; Ramaswami 2005; Planning Commission 2005; CMS 2005; Srivatsava 2002; Pandey and Pant 2000; Lieten and Srivastava 1999). There is also evidence of lack of awareness on the part of people regarding details of schemes as well as their own entitlements, and delay in delivery (e.g. Planning Commission 2009a; Upvan 2008; Pandey and Pant 2000). Some studies further point out towards a lack of delivery infrastructure at the level of state governments (e.g. Planning
Commission 2009), and a lack of organisational capabilities on the part of delivery agencies (e.g. Planning Commission 2009a; Pandey and Pant 2000).

In this context, this research explores whether employing a State institution, India Post, towards service delivery of microfinance-linked social protection would address such delivery constraints. Following sections provide a historical perspective on the evolution of postal system in India, analysis of its current external environment and its response to such environment.

11 India Post network capital

India Post is the biggest postal network in the world, having 155,035 outlets, 89% of which are in rural areas (Annual Report 2009). Even in terms of average area and populations served per post-office, it compares favourably with other postal networks in the world. An Indian post-office covers an area of 21.2 sq. km (as against 259.25 sq. km. in case of a US post-office and 145.59 sq. km. in case of a Chinese post-office) and serves 7,174 people (as against 8,029 people by a US post-office and 19,962 people by a Chinese post-office) (Annual Report 2009).

Through a unique model of its rural branches, run by personnel drawn from the local communities, India Post has been providing mailing, and financial products including small savings, life insurance and remittance to even the remotest and most backward areas. This combined with the fact that in many small villages post-office is the only government agency; it has traditionally enjoyed trust and confidence of local people and is highly accessible to all the sections of the society. Rural Finance Access Survey (World Bank 2004, cited Basu and Srivastav 2005) shows that post-office branches in India have closest proximity (2 km on average) to rural clients compared to branches of commercial banks, regional rural banks, and cooperatives (5 km on average). Post-offices are also in a position to identify and cater to each and every household in all the villages, however remote, in India.

12 Historical overview of postal system in India

Postal system in India, as everywhere else, developed in response to the needs of the rulers to keep themselves continuously informed of the happenings in their territories. The system also served the purpose of establishing communication with their administrative machinery

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20 Through a system called *Gramin Dak Sevaks* who are part-time but regularly engaged agents to manage postal operations in mainly rural areas as postal work in rural areas is not enough to require full-time employees. Post-offices in rural areas, managed by *Gramin Dak Sevaks* are called extra-departmental post-offices.

21 This section mostly draws from Clarke (1920); Anand (1954); Sheel (1984); and Ahmed (1996).
throughout their territories and also outside the territories. Clarke (1920) mentions that when Ibn Batuta visited India in the middle of the 14th century he found an organised system of couriers throughout the country governed by Muhammad Bin Tughlaq. In some parts of south India, particularly in Mysore in the 17th and 18th centuries, the post-offices also doubled up as instruments to collect intelligence on their subjects for the rulers.

During Mughal period, the network was strengthened by employing horsemen to carry mails. Two horses were kept at every two miles and rest houses were built at every ten miles on the principal roads. However, much of this system disintegrated with the decline in the Mughal Empire and thus the British did not ‘appear to have found any established system of communication when they began to extend their domination in India’ (Clarke 1920:12).

The postal system was revived in Calcutta Presidency by Lord Clive in 1766. He made the landlords along the postal routes responsible for supply of runners to carry mails. Their rents were reduced in proportion to the number of runners supplied. The service was however utilised only for conveying official mails and documents. In 1774, under the administration of Warren Hastings, the postal system in Calcutta Presidency was made available for the private communications. A Postmaster General was appointed and postage was charged for the first time on private letters. In 1785, Madras Presidency also opened its postal system for restricted private correspondence with an appointment of a Postmaster General.

Along with the geographical expansion of British rule in India, postal services continued to expand without much transformation in their administration. A few main lines of couriers connecting principal towns were established in various provinces under British rule for conveyance of government letters and parcels. Private persons, however, could use these mail services only as a matter of privilege. The local postal systems in the districts between police stations and headquarters were still maintained by the landlords of concerned districts.

Through the Act XVII of 1837 a public postal system was established and the government assumed the exclusive right to convey letters in the territories of the East India Company. Uniformity was attempted by fixing postage charges to be levied on the principal routes. The Act abolished many private services and landlords were asked to pay a local cess to maintain

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22 Due to this reason the government guest houses are still called *dak* bungalows (postal bungalows).
the postal systems in the districts, called District Post. The District Post was developed in response to the needs for maintaining the means of official communication between the headquarters of each district and the revenue and police stations in the interior. It was also made available for private correspondence subsequently. The 1837 Act thus established a dual system of posts; the Imperial Post, which controlled all main routes and large offices, and the District Post, which was entirely local and controlled the rural services in each district.

In 1850, a commission was appointed by Government of India to inquire into the methods for making the post-office more efficient and relevant to the public. The commission submitted its report in 1851 and recommended reforms in the postal system on the principle that the post-office is to be maintained for benefit of the people of India and not for the purpose of swelling government revenues. The commission asserted that the communication needs of ‘a large number of natives who were engaged in the occupations connected with the internal trade of the country are far more extensive than that of Europeans, the greater part of the latter being engaged in the service of Government and not under the necessity of writing letters except on their own personal concerns or those of their friends’ (Clarke 1920: 23). While advocating for the uniformity of postage irrespective of distance, the commission mentioned that combined with a low rate of postage ‘it makes the post-office what under any other system it never can be- the unrestricted means of diffusing knowledge, extending commerce and promoting every way the social and intellectual improvement of the people’ (Clarke 1920: 25, emphasis added).

In addition to lowering the postal rates and uniformity of postage irrespective of distance, the commission made many significant and far-reaching recommendations including provision for prepayment of postage by means of adhesive postage stamps, introduction of money orders, formation of the post-office as an Imperial Department under a Director General with Postmasters General in each province who would not be subject to the authority of the Local Government, and the transfer of District Posts to the Imperial Department of Posts.

The condition of roads in India before 1850s was extremely bad and all roads excepting the one between Calcutta and Barrackpore were hardly suitable even for bullock carts. The mails were therefore required to be conveyed through runners and even a slight increase in weight entailed extra cost. Thus it was neither feasible to reduce the postage rates nor was it economically viable to charge uniform postage irrespective of the distance. The situation however changed drastically with the introduction of railways in 1852, and abolition and
replacement of military boards with the Public Works Department in 1854, which significantly improved condition of roads. These developments enabled post-offices to use mechanised transport in conveying mails which completely transformed postal administration.

In this historical setting, the Post-Office Act (Act XVII of 1854) laid the foundation for the present organisation of the Indian post-offices. It accepted the recommendations of the 1850 Commission on Post-Offices and introduced postage stamps on all-India basis. It established a ‘total monopoly of the government with regard to management of the post-offices and the exclusion of private competition from conveyance of letters, through the so-called postal privilege’ (Ahmed 1996: 28). The Act also paved way to abolish the District Post and its takeover by the Imperial Post. This measure led to the rapid development of private correspondence, acceleration of the speed of mail conveyance, and a marked improvement in the postal arrangements in the interior of the districts. As the number of Imperial post-offices increased, the primary object of the District Post became less important and its funds were increasingly devoted to the extension of rural delivery and postal facilities in backward rural tracts. Development of these tracts increased the postal traffic, which over time became sufficient to cover the expenditure of Imperial Post. The money thus set free was used to start offices, mail lines and rural messengers in places where the post-offices did not exist. District Post could however be entirely abolished in 1906. Since then the administration of the post-offices continued on the same lines even after the Independence.

Meanwhile in 1883, the post-offices were linked with the telegraph network. Initially, post-offices and telegraph-offices worked separately but in the same premises. Finally, they were merged in 1914 and the Director General, Posts was designated as the Director General, Posts & Telegraphs. However in the early 1980s, the need to demerge the two departments was felt again due to the rapid expansion of the telecommunication services in India. The Department of Posts & Telegraphs was accordingly bifurcated in 1984 into the Department of Posts (India Post) and the Department of Telecommunications.

13 Social and economic impacts of post-offices

Post-offices substantially contributed towards the socio-economic development of the country under British rule as it provided crucial communications infrastructure to the people which they leveraged on to expand their trade, business, knowledge and social networks. Jagjivan Ram, the then Communications Minister of India states that ‘credit must accrue to the British for setting up an organisation that ultimately helped to knit this country together and to take
education, trade and industry to the farthest corner of India even if this was in their own interests’ (Anand 1954: Preface).

Growth in the number of post-offices kept pace with the state of education in British India. Its growth rate was almost the same as that of the increase in the percentage of literate people in the country. On an average, about 1,000 literate people in India always commanded the service of a post-office throughout the British rule (Ahmed 1996: 299). The uniform rate of postage on book-post\(^\text{23}\) was introduced in 1854. This measure, together with further reduction in the postage charges and liberalisation of the conditions governing the book-post product from time to time, served the educational needs of the society and facilitated its intellectual growth.

Due to their far-reaching presence, post-offices helped in spreading political awareness amongst the people in India. Development of postal services allowed the people to communicate with their counterparts in different parts of the country, which eventually helped in ‘evolution of the [national] character and transformation of the national consciousness’ (Ahmed: 299). The facility provided by the post-offices to transmit newspapers at cheaper rates further promoted the expansion of national consciousness among a wide range of people throughout the country. The 1874-75 Annual Report of Post Office Department (ARPO 1875)\(^\text{24}\) notes that the range of circulation of the vernacular newspapers was significantly increased with the extension of the postal network over the years. Indigenous newspapers circulated even to the remotest areas through post-offices influenced the prevalent thinking, and mobilised people on the issues of national importance. Money order service\(^\text{25}\) was largely used by the people of lower economic classes and migrant labourers. The service was in great demand during natural calamities such as famines ‘owing to emigrant labourers and servants and others making larger use of the system than used for the purpose of sending remittances to their homes, in the famine stricken tracts’ (ARPO 1898:1).

Good communication system is widely acknowledged to constitute an important infrastructure for development of trade and industries. Evolution of a pan-Indian postal system therefore significantly contributed to the growth of Indian trade and industry. The report of Industrial

\(^{23}\) A service which allows the publishers and dealers to supply books to their clients through the post-offices

\(^{24}\) Annual Reports of the Department before Independent India are referred as Annual Report of Post Office Department (ARPOs). After Independence they are simply referred as Annual Reports (ARs).

\(^{25}\) The inland remittance service offered by the post-offices
Commission (1918: 2) points out that the improvements of communications by expanding postal system were aimed at ‘facilitating trade, which continued, to consist mainly exports of Indian raw materials and imports of foreign manufactured goods’. Penetration of postal network into the interiors, and diversification of its functions, brought about major changes in the activities of urban commercial centres and also influenced the transformation of rural economy. As an example, the “post-bag system” through which mails could be exchanged between the plantations and post-offices facilitated establishment of most of Indian tea and indigo industries (Ahmed 1996: 318).

In response to the demand of trade and industry sectors, the post-office department introduced a cash-on-delivery service, called “value-payable-post” service. This service proved to be extremely useful for expanding trade in small and petty articles to the hinterlands of the country. Petty articles of domestic use, and personal ornaments made in England, such as scissors, mirrors, bangles, glass-ware, cloth, cutlery, watches and machines, were made available through this service to be sold in Indian markets. The service also facilitated sale of Indian and foreign drugs and patent medicines, and other consumer items in the rural areas and small towns, which ‘all added appreciably to the comfort of the people’ (Clarke 1920: 83). The system enabled firms, both foreign and indigenous, to establish main centres in cities like Bombay and Calcutta and serve as retailers for the whole country, without having to open a large number of un-remunerable retail shops in smaller towns and cities. The people in rural areas and smaller towns, on the other hand, were saved from undertaking periodical journeys to the big cities (ARPO 1883).

There has also been a rich tradition of leveraging the postal network by different (mostly government) agencies in order to further their objectives, especially while making an effort to reach a large number of people in the country. Principal reason for such arrangements is that the postal system in India is the only organisation that reaches every nook and corner of country with its large network of offices and agencies.

An indicative list of utilisation of the postal network by various organisations is placed at Appendix 6.
14 Expansion of the network

Expansion of the Postal Network (EPN) scheme was introduced after Independence to expand the network and targets were allotted to the postal department under annual plans of government of India. Under the scheme, post-offices were opened subject to distance, population, and income norms fixed for the purpose. Subsidy was provided to all the post-offices opened in rural areas to fulfil the Universal Service Obligation (i.e. India Post is obliged to provide basic postal services to all the citizens of India). No subsidy is however offered to post-offices in urban areas, as they are expected to be financially self-sufficient and earn 5% more than their cost after the first year.

Postal network in the country was expanded largely by opening rural post-offices. Such a strategy of expansion has however been modified in recent years with an increased focus on reducing the deficit of the department, over 40% of which is attributed to the subsidy on the network.

15 The financial services-basket of India Post

According to Rural Finance Access Survey (World Bank 2004, cited Basu and Srivastav 2005), India Post is the largest financial service delivery network in India. The network is currently offering remittance (including money orders and postal orders), savings, and life insurance services, which evolved as responses to different social and economic situations in India in the long history of India Post.

Evolution and details of the financial services currently offered by India Post may be seen at Appendix 7.

16 India Post in transition: Analysis of its financial performance since its inception

The post-offices generated substantial profits in the initial years of their establishment as Imperial Post. The profits however received a major dent with extension of railways as the passengers preferred to travel and send goods through railways instead of bullock cart trains owned by the post-office department. As a result, there was a substantial drop in profits from INR 2.8 million in 1853-54 to INR 104,000 in 1887-88. However, the spread of education and better connectivity among the post-offices caused their increased usage which resulted in increase in the profits (ARPO 1901). The amalgamation of the posts and telegraphs
departments in 1914 economised its expenditures significantly which further increased the profits (ARPO 1915).

The department incurred losses for the first time in the year 1920-21, and the accounts of the department were closed with a net deficit of INR 4.6 million (ARPO 1921). The deficit was due to increase in salaries and payment of arrears of pay accrued to the staff since December 1919. It was gradually reduced in subsequent years and was wiped out in 1924-25, when there was a surplus of INR 1.3 million. The surplus continued to increase till 1927-28 when there was a deficit again as a result of improvements in the scales of pay and other conditions of service for the staff. The deficit continued for the next six years. In 1934-35, the department again earned a profit of INR 2.4 million which kept on increasing till 1945-46 when it amounted to be INR 48.4 million. The profits decreased sharply afterwards and the account for the year 1948-49 closed with a loss of about INR 17.3 million. The loss for the year 1948-49 was however partly attributed to the partition of India and large-scale civil disturbances.

After Independence, the government of India decided to expand the network to address the communication and financial infrastructure needs of the people in rural and other underserved areas. According to the Annual Report (2007), at the time of Independence, there were only 23,344 post-offices mostly located in the urban areas. As a result of massive expansion after Independence, India now boasts of the largest postal network in the world. More importantly, 89% of all the post-offices are now in the rural areas. This massive expansion was driven by a belief that the post-offices constitute a very vital part of the economic infrastructure which is essential for growth and development of the country. Thus the policymakers did not envisage earning profits through the post-offices but supported its expansion with financial subsidies in the larger interest of the people and the nation. As a result, all the accounts of the post-offices were closed with a deficit after Independence excepting for the financial years of 1954-55, 1955-56 to 1959-60, 1961-62 to 64-65, and 1978-79.

According to the Annual Report (1998), only five services out of a total 23 being offered by the post-offices were able to recover full costs and leave some surplus in 1997-98. Remaining 18 services were in deficit and their cost was more than the revenues they realised. For 1998-99, the number of loss-making services increased to 20, and only four services out of 24 on offer could generate some surplus (Annual Report 1999). An analysis for 2001-02 reveals that a major portion of subsidy made available for India Post is consumed for maintaining the
postal network in rural areas. In 2001-02, approximately INR 5630 million (about 40% of the total subsidy) were spent to maintain the rural postal network alone. Concessional tariff for transmission of registered newspapers accounted for a loss of INR 1030 million, while transmission of book-packets containing printed material entailed a subsidy of INR 400 million. Subsidy on account of under-pricing of money orders and the registered post was estimated to be INR 3200 million and INR 3900 million respectively (Annual Report 2002: 8). Needless to say, the rural areas also account for a majority of the subsidy being consumed in providing such services.

17 Analysis of the external environment of India Post

Postal communication flourished across the world until electronic communication became cheap enough for a large majority of the population to be able to afford it. With more and more people switching over to electronic communication, the traffic for postal communication declined and the losses of the post-offices started to mount. On the other hand, the growth in the Indian economy created its own demand for the transmission and conveyance of the documents and small parcels. Sensing an opportunity, private courier companies opened their businesses in the urban areas and took away a large portion of the urban business, which was a major source of the revenue for post-offices. These courier companies are in a relatively advantageous position, as they are able to offer modern technology-driven customised services. The post-offices, on the other hand, due to their rigid bureaucratic structures, have largely been offering traditional and inflexible services with uniform features. Marketing strategies of the courier companies are also more effective and visible. The post-offices, in response, have modified their business strategy at least in urban areas and have started offering customised services during last few years. The courier companies, however, have the first mover advantage in the highly demanding (in terms of quality, speed and tariff) urban market of document and parcel transport. Thus, India Post has not been very successful in regaining the ground in the urban areas, while its operations in rural and semi-urban areas are not adequate to sustain the network, which is evident by the consistently large amount of deficit sustained by the department during recent years [see Appendix 8].

With the losses being substantial, and the people having alternative means of communications even in the villages, the importance of post-office has been reduced not only in the minds of people but also with the government. It is generally argued that the scale of loss is an indication that the service is no longer needed by a majority of people so the government has
no reason to keep subsidising it. Although, loss-making by the post-offices is not a new phenomenon, it was justified earlier on the logic that the postal services constituted essential public services and needed to be subsidised in the interest of the people. Postal services were also considered to be providing very important financial infrastructural facility to the people in rural areas. Now with the increased influence of the neo-liberal elements in the policymaking, the situation has changed significantly and India Post is under great pressure to reduce the losses.

18 Response of India Post to the changes in its external environment

Annual report (1998: 4) notes that the ‘postal administrations the world over are trying to cope with the challenges posed by growing volume of mail, the need to deliver services faster to the customers, increasing competition from courier industry and fast-changing communication scenario due to technological advancements’. India Post is responding to the challenges by cutting down its rural network, modernising its network, and introducing technology to improve the quality of existing services. It is also introducing new products and services leveraging on its network, and newly-introduced technology. It is further seeking ‘to optimize its retailing strength, by providing a range of public utilities and new financial services that are relevant to the socio-economic needs’ (Annual Report 2007: 3) of the people of India. This strategy of improving the existing products and introducing the new products is being applied to the mail and retailing as well as the financial services.

18.1 The network

As a major portion of the losses is generated in the rural areas, especially in the backward regions, India Post has started cutting down its rural network in order to reduce the losses. Such policies have already resulted in reduction of Gramin Dak Sevaks, staffing the post-offices in rural areas, by 11%, as is evident from the following table:

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26 Mail services include accepting (booking), conveying, and delivering letters, documents, and parcels
27 The services delivered through the post-office counters are referred to as retailing services, such as bill payments, and sales through the counters
Table 4.1: Number of Gramin Dak Sevaks engaged by India Post during last eight years

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Number of Gramin Dak Sevaks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>3,10,269</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>3,06,736</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>3,03,170</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>2,98,571</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>2,93,656</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>2,86,004</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>2,80,802</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>2,76,155</td>
</tr>
</tbody>
</table>

Source: The Report of the Gramin Dak Sevak Committee (India Post 2008: 4)

This however appears to be a self-defeating remedy, as need of the people for post-offices is the most in the rural areas for want of alternatives. This segment of the network can be well utilised to provide much-needed financial and retailing services to the rural population without incurring additional costs. In most of the rural areas there are no other means to provide such services; provision of which may not only increase the revenues of the department but may also help the rural people in improving their livelihoods and well-being.

18.2 Premium products

India Post established Business Development Directorate (BDD) in 1996 ‘with the aim to design, develop, monitor and market various value-added premium products of India Post as also to explore the scope of commercial utilization of idle resources of the Department’ (India Post 2005: 8). The BDD has been designing and marketing “premium” products in mail and retailing segments to meet the needs of urban, and mainly business, clients. A preliminary analysis of the products reveals that they are available only at selected urban (and in a few cases, semi-urban) post-offices and none of the products is utilising more than 10% of the India Post network. Thus a major portion of the postal network is not being utilised by the premium products of the department.

18.3 Financial services

India Post is also striving to enlarge the scope of its financial services in ‘the context of economic liberalisation of Indian economy, recent technological advancements and the best

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28 Available at its official website, [www.indiapost.gov.in](http://www.indiapost.gov.in)
interests of the customers’ (India Post 2000: 40). It has taken various initiatives to broad-base
the range of its financial services to maximise its revenue (India Post 2002). The focus of such
initiatives has been to ‘provide a bouquet of services that will cater to the needs of the
customer by leveraging the retailing outreach of the network’ (India Post 2007: 49). It is
aimed that the post-offices ‘should become a one-stop shop not only for Savings Bank
schemes but also for public private entities who want to ride the outreach to reach areas which
are otherwise inaccessible to them’ (India Post 2007: 49).

Thus new services have been launched and values added to the existing products in all the
three financial sectors, viz. banking, remittance and insurance, India Post is currently engaged
in. In the banking sector, it has ventured into retailing of mutual funds of different companies,
payments of dividend warrants, sale of government securities, and money changing; while
also introducing debit and credit cards, and electronic clearance systems to its existing
services. Collaborations and arrangements have been made to disburse the government
financial assistance, wages, and pensions through the savings accounts. India Post also
introduced electronic fund transfer and Instant Money Orders (IMO) for quick remittances,
and tied up with the Western Union for delivering international remittances to the domestic
clients.

Most of the newly introduced products and value additions are however available in a few
selected post-offices in the urban areas and are not generating significant amount of revenues.
This is largely because of the fact that in the urban areas such products and services have a
superior (in both quantity and quality) supply, and the competitors have developed a better
expertise than India Post. They have better technology, much better trained manpower, and
much more conducive office environment. The resources within India Post are not enough to
adequately computerise and achieve sufficient injection of modern technology in the vast
network of even the urban post-offices. Without being backed by suitable modern
technological support such products and value additions cannot be offered, and if at all offered,
will not be competitive in terms of quality and the price.

While offering the new products and value-additions in the existing financial products, the
rural postal network was largely ignored even though it offers a distinct competitive advantage,
with almost a monopolistic presence in some areas. The following table, comparing the
revenues of the two of the most important initiatives in financial services with the total
revenue from the financial services of India Post, demonstrates the futility of such a strategy. The revenues from the aforesaid new financial services are even more insignificant when compared with the annual deficits of India Post. Ironically, such services have been introduced in a bid to reduce these deficits.

**Table 4.2:** Comparison of revenues from sale of mutual funds and the IMO with the revenue from all the financial services taken together and the annual losses of India Post (In million INR)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total revenue</th>
<th>Revenue from all the financial services</th>
<th>Revenue from sale of mutual funds</th>
<th>Revenue from IMO</th>
<th>Annual deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>50,234.88</td>
<td>26,565.11</td>
<td>2.4</td>
<td>0.07</td>
<td>12,098.84</td>
</tr>
<tr>
<td>2006-07</td>
<td>53,224.39</td>
<td>28,438.36</td>
<td>53</td>
<td>0.92</td>
<td>12,495.95</td>
</tr>
<tr>
<td>2007-08</td>
<td>54,948.96</td>
<td>28,511.51</td>
<td>162</td>
<td>6.76</td>
<td>15,114.44</td>
</tr>
<tr>
<td>2008-09</td>
<td>NA</td>
<td>NA</td>
<td>42.5</td>
<td>9.46</td>
<td>NA</td>
</tr>
</tbody>
</table>

**Source:** Compiled from the data from India Post and its Annual Reports

19 Conclusion

This chapter reviewed the literature on the causes of poverty as well as its extent in India. It was argued that in the prevalent politico-economic conditions in India the efforts to reduce poverty may need to focus on creating and developing appropriate institutions, deepening the markets and providing social assistance and safety nets to the poor and vulnerable. Microfinance and social protection may thus play an important role in reducing poverty in India. The chapter analysed Indian microfinance from a historical perspective and discussed various estimates of microfinance-coverage of the poor at present. It was argued that wider participation of agencies and structures is needed to achieve greater penetration of microfinance in India.

Development of social protection mechanisms in India was mapped and it was argued that much of current emphasis on social protection in India reflects the realisation that economic growth in itself does not contain mechanisms to make it inclusive. Service delivery constraints facing social protection programmes were captured from the literature. Contribution of the post-offices towards social and economic development in India was analysed and the challenges currently facing the postal network were assessed in its historical perspective. It was argued that the response to such challenges at the levels of the network, premium products and financial services is not very successful as it largely ignores the rural portion of

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the network and does not take into account the competitive advantage it has in the rural areas. Examination of the premium products and new, and value added, financial services initiated by India Post also reveals that there is a clear urban bias while designing such products and services.

The next chapter presents empirical perspectives from the three sample states of UP, Gujarat and AP, and India Post. It analyses the financial environment of the poor households in terms of their livelihood strategies, patterns of expenditure, financial needs and the measures they are adopting to address such needs. It further captures the addressing of financial needs through an extensive provisioning of microfinance in AP and contrasts it with the situation in the two other states. It describes the coverage of poor households under selected social protection programmes in the sample villages. The chapter also examines poor households’ perspectives on the suitability of post-offices to be engaged for service delivery of microfinance and social protection and investigates the organisational practices within India Post.
Chapter 5

Contextual description and empirical examination

1 Introduction

This chapter describes the empirical context and examines empirical data. Financial environment of the poor households is analysed in terms of their livelihood strategies, patterns of expenditure, financial needs and the measures they are adopting to address such needs. Nature and extent of provisioning of microfinance is then described in the sample villages. Meeting of financial needs through an extensive provisioning of microfinance in AP sample villages has been captured and is contrasted with the situation in the other sample villages. Coverage of the poor households within various social protection programmes has been described in the sample villages, which shows that the social protection programmes have become an important aspect of the overall financial environment of their recipients. Poor households’ perspectives on the suitability of post-offices to be engaged for service delivery of microfinance and social protection are examined and the organisational practices within India Post have been investigated.

2 Profiles of the states of UP, Gujarat and AP

UP, Gujarat and AP are three of the major Indian states. Gujarat covers westernmost part of India while UP, the most populous state in India, is located in the north and AP in the south-east. Gujarat is one of India’s richest states contributing to 11% of India’s GDP with less than 5% of its population. AP ranks fourth in all-India list in terms of geographical area and fifth in terms of population. UP constitutes 7.6% of the total area of the country, while it houses more than 16% of India’s population.
Table 5.1: Profiles of UP, Gujarat and AP states

<table>
<thead>
<tr>
<th></th>
<th>UP</th>
<th>Gujarat</th>
<th>AP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (sq. km)</td>
<td>240,928</td>
<td>196,022</td>
<td>275,069</td>
</tr>
<tr>
<td>Population</td>
<td>166,052,859</td>
<td>50,596,992</td>
<td>75,727,541</td>
</tr>
<tr>
<td>Percentage of rural population</td>
<td>79.22</td>
<td>62.64</td>
<td>72.92</td>
</tr>
<tr>
<td>BPL population (in 2004-05)</td>
<td>32.8%</td>
<td>16.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td></td>
<td>10,758</td>
<td>11,334</td>
<td>25,487</td>
</tr>
<tr>
<td>Literacy rates</td>
<td>57.36%</td>
<td>69.14%</td>
<td>61.11%</td>
</tr>
<tr>
<td>Sex ratio</td>
<td>898</td>
<td>921</td>
<td>978</td>
</tr>
</tbody>
</table>

Source: Various official statistics, India 2001 census, and RBI (2009)
Figure 5.1: Political map of India


Note: Uttar Pradesh (UP) is in the north, Gujarat in the west and Andhra Pradesh (AP) is located in the south-east of the country.
Figure 5.2: Map of UP

Note: Kanpur Dehat (Rural) district is in the south-west of capital Lucknow.
Figure 5.3: Map of Gujarat

Note: Dahod district is in the east of capital Gandhinagar.
Figure 5.4: Map of Andhra Pradesh (AP)

Note: Khammam district is in the north-east of capital Hyderabad.
Profiles of Kanpur Dehat, Dahod and Khammam districts

The villages were sampled from Kanpur Dehat district in Uttar Pradesh, Dahod in Gujarat, and Khammam in Andhra Pradesh. Kanpur Dehat and Dahod are among the two most underdeveloped districts in the country on various economic and social indicators. Part of the reason for extreme poverty in Dahod is attributable to lack of fertility of land, as it is rocky and undulating, and lack of adequate irrigational facilities. Low levels of education, particularly among tribals, also contribute to the widespread poverty in the district. A large majority of people migrates from their villages in search of work in the industrial and urban areas of Gujarat. Land in Kanpur Dehat, on the other hand, is fertile with good irrigational facilities provided through a network of canals and tubewells. A large number of people in the district however live in abject poverty due to their being marginal or landless farmers, as the land reforms undertaken after the Independence of India were not proved very effective in the state. Village communities are also sharply divided on caste-lines with well-defined hierarchy; the lowest on the caste-hierarchy generally being the poorest too. Khammam falls in Telengana region, the erstwhile princely state part of AP. Location of Hyderabad, the state capital that also falls in Telengana has developed the region relatively more industrially than other parts of the state. Such development has however been largely limited to the urban areas. Rural areas still remain largely dependent on agriculture thus exacerbating the urban-rural divide. Soil fertility is also lower compared to the coastal part of AP that explains rural coastal AP being more prosperous than Telengana. Khammam as a district has considerably higher population of SC/ST communities than the average population of such communities in AP.

Table 5.2: Profiles of Kanpur Dehat, Dahod and Khammam districts

<table>
<thead>
<tr>
<th></th>
<th>Kanpur Dehat</th>
<th>Dahod</th>
<th>Khammam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (Sq. km)</td>
<td>3,146</td>
<td>3,646</td>
<td>16,029</td>
</tr>
<tr>
<td>Population</td>
<td>1,563,336</td>
<td>1,636,433</td>
<td>2,578,927</td>
</tr>
<tr>
<td>Percentage of rural population</td>
<td>93.1</td>
<td>90.5</td>
<td>80.2</td>
</tr>
<tr>
<td>Percentage of SC population</td>
<td>24.8</td>
<td>2.01</td>
<td>16.6</td>
</tr>
<tr>
<td>Percentage of ST population</td>
<td>Negligible</td>
<td>72.3</td>
<td>26.5</td>
</tr>
<tr>
<td>Literacy rate (%)</td>
<td>51.9</td>
<td>45.2</td>
<td>56.9</td>
</tr>
</tbody>
</table>

Source: India 2001 census
4 Profiles of the villages under study

The villages in each state were purposively selected to consist of a sizeable population of socially depressed and historically pauperised communities of ST (in case of Gujarat and AP) and SC (in case of UP). It was also decided to select one village as a relatively larger village with a rather heterogeneous population in terms of social and economic classes. The other village was deliberately chosen to be smaller, consisting predominantly of SC or ST households without much disparity in the conditions of living, in order to obtain as large variation of conditions within the same district as possible.

Table 5.3: Demographic details of the villages

<table>
<thead>
<tr>
<th>Village</th>
<th>State</th>
<th>Population</th>
<th>Households</th>
<th>SC households</th>
<th>ST households</th>
<th>BPL households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pratappur</td>
<td>UP</td>
<td>1,909</td>
<td>385</td>
<td>115</td>
<td>-</td>
<td>224</td>
</tr>
<tr>
<td>Barakheda</td>
<td>UP</td>
<td>152</td>
<td>23</td>
<td>20</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td>Andhari</td>
<td>Gujarat</td>
<td>1,366</td>
<td>196</td>
<td>-</td>
<td>115</td>
<td>173</td>
</tr>
<tr>
<td>Kankari Dungari</td>
<td>Gujarat</td>
<td>756</td>
<td>110</td>
<td>-</td>
<td>110</td>
<td>108</td>
</tr>
<tr>
<td>Kaikondaigudam</td>
<td>AP</td>
<td>4,102</td>
<td>892</td>
<td>142</td>
<td>243</td>
<td>882</td>
</tr>
<tr>
<td>Bachalakoyayudam</td>
<td>AP</td>
<td>574</td>
<td>120</td>
<td>-</td>
<td>120</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: India Census 2001 and the district BPL lists. *The states have devised their own criteria for determining the poverty lines. The income criteria for poverty lines in AP are substantially higher than those in UP and Gujarat. On AP criteria, many more households in UP and Gujarat will be BPL.

5 Financial environment and financial needs of the poor households

Poor households do not constitute homogeneous sets in any sample village. Patterns of their income and expenditure that define their financial environment do not follow similar paths and trends. In case of individual households too, it is difficult to discern temporal patterns as their incomes were observed to be fluctuating significantly, followed closely by their expenditure patterns. Any attempt to average out such fluctuations using quantitative tools in such a case may run a risk of losing valuable information and may not be able to adequately capture their financial needs.

In order to have a more complete assessment of financial needs of the poor households, it is essential to analyse their underlying mechanisms and structures generating such needs to a large extent. Such mechanisms and structures are provided by their livelihood strategies and patterns of their expenditures. Following sections estimate the financial needs of poor
households in the sample villages in UP and Gujarat, based on analysis of their livelihood strategies and patterns of their expenditures.

6 Empirical perspectives from UP and Gujarat

6.1 Pratappur village profile

The village has a heterogeneous mix of population along the caste hierarchy. Informal discussions with various sets of villagers revealed that about 90% of the SC households are poor. In addition, about 50% of the OBC and OC households are also poor. The most important means of production in the village is agricultural land, distribution of which is not homogeneous among the households. However, increase in population over recent years has reduced the average size of landholding per household and now no household has more than 15 bighas of land. Only 18 households have more than ten bighas, while 116 households have either less than a bigha of land or are landless. One SC household owns more than ten bighas of land, 107 have less than a bigha, while seven households are landless. SC households with less than a bigha of land are the ones who got land as a result of redistribution through land reforms and land consolidation exercises in the early 1970s. Only six people belonging to the SC communities have regular jobs, while twenty-one of OBC communities and 29 people of OC communities hold regular jobs. Brahmins (OC) and Yadavs (OBC) are two dominating castes having some businesses in addition to agriculture.

The village has a post-office, an Aanganwadi and a school till class eight and petty provision shops. Nearest railway-station and Primary Healthcare Centre (PHC) are 3 km away. People normally buy vegetables, food grains, spices, oil, shoes and clothes in the village itself unless they have money to buy provisions in larger quantities for which they go to the towns where they get the same things at cheaper rates. There is no supply of electricity in the village. About 90% of the households do not have toilets.

6.2 Barakheda village profile

Barakheda has a largely homogeneous population with 20 out of the 23 households belonging to the SC communities and remaining three to the OBC. It has been taken up for development

29 Other Backward Communities
30 Other Castes, excluding SC, ST and OBC; also termed as ‘upper castes’ and ‘forward castes’
31 Bigha is a widely used measurement of land in many parts of India denoting different measurements at different places. Most commonly used bigha unit measures 1,600 yards (0.3306 acres) of land, prevalent in both UP and Gujarat sample villages.
on priority basis by granting it an Ambedkar village status by UP government. This has resulted in installation of two handpumps for drinking water, and arrangements for electricity supply. However no household applied for electric connection as they did not find even the minimum electricity charges affordable. A street was being laid inside the village at the time of this study. There is a school till class eight in a neighbouring village. Nearest PHC and railway-station are 3 and 4 km away respectively.

Only one person has a regular job with a public sector company; two more have jobs as drivers with small-time private operators. No other person in the village has any regular employment. Agriculture can sustain only one household for the whole year. Adult members (and even teenagers) from all other households look for wage labour opportunities around the village and in Kanpur. Five men regularly migrate to faraway places. Two men have skills in making sweetmeats and are employed by the contractors during marriage season, normally lasting about two to three months in a year. Two other men can play musical instruments and they are engaged by local orchestras to play in the marriage processions. All the households, barring six, are landless.

This village is surrounded by bigger villages with ‘upper-caste’ households and most of the land surrounding this village is owned by them. Six households of Barakheda were allotted small pieces of land, about a bigha each, as a result of land reforms in early 1970s but were never given the property papers. Only two of such households are in possession of their land. In other cases, the land remains occupied by the more powerful people in the neighbouring villages. In addition, three more households claim that their ancestral land is occupied by other powerful people from different villages and they are unable to secure their land. Any effort to secure their land will require them to take legal recourse, which is time-consuming and costly. Lack of education and literacy is also a major factor as they are ignorant of the procedures and therefore are not confident to approach legal and judicial institutions. The most important factor, however, is that they are dependent on such powerful people for getting the work on their fields, and obtaining loans in cases of emergency. They are dependent on their fields even for defecation, as none of the households has a functional toilet.

6.3 An analysis of livelihood strategies of poor households at UP sample villages

As is the case across the low-income world, the poor households in both the villages engage in a multitude of livelihood activities at any given point in time to improve their economic and
social conditions (Anderson and Deshingkar 2005). They cultivate their own small patches of land, if available, sharecrop at others’ fields, engage in seasonal agriculture labour and other wage labouring activities in their own village and outside, and migrate to far-away places in search of work. Some households, especially those of the sharecroppers, keep livestock and sell milk if the animals are milch. In case of bullocks or he-buffaloes, they also save expenditure on ploughing the fields through tractors. Another reason for keeping the livestock, especially goats, is to use them as a form of insurance and sell them when a need for a lump sum arises. The bigger animals such as cows and buffaloes are also kept for dung to meet fuel requirements and to plaster the mud floors and walls. Some households engage in their traditional, caste-specific occupations such as scavenging, sale of flowers, carpentry, black-smithy, pottery-making and broom-making. Women and children invariably spend some time in collecting the firewood. None of the households is however engaged in poultry as they do not have sufficient space to keep the birds. Additionally, they do not have resources, skills or risk-taking abilities to start enterprises of their own.

All such strategies are however undergoing fundamental changes due to transformations in social and economic structures inhabiting them.

6.3.1 Sharecropping

The households owning relatively large patches of agricultural land have traditionally been engaging the households with little or no land to sharecrop on their fields. This has been partly because of short supply of labour within the landowning households. Another reason for sharecropping was that a majority of landowning households belonged to the higher strata in the caste-hierarchy that were not inclined to directly engage in the low-status agricultural work. Agricultural work also involved drudgery, and the landowning community, in order to strike a trade-off between drudgery and agricultural income as in the Chayanov model of peasant enterprises (Ellis 1993; Thorner et al. 1966), normally chose sharecropping over cultivating the land on their own in the UP sample villages. Sharecropping (called tenant) households were normally expected to supply the entire labouring input and bear half of the capital inputs to claim a half share of the total produce. In Indian Marxian writing tradition (e.g. Bhaduri 1986; 1973), sharecropping is viewed as a form of exploitation where surplus generated by the tenant class is appropriated by the landowning class by virtue of their possessing the means of production (land). Such appropriation is directly in terms of the produce and is not mediated through the market in terms of price and wages. It is thus closer
to the feudal production relations. Sharecropping in this view is thus termed as semi-feudalism (Bhaduri 1973).

Introduction of technology, especially the tractors and mechanised threshing, and better provisioning of irrigation facilities have however changed the situation to a large extent, especially during the last decade. Use of technology in farming has reduced the drudgery and raised the status of agricultural work. This factor along with improvements in agricultural productivity due to better irrigation facilities and improved agricultural practices is encouraging the landowners to get directly involved in cultivating their own fields. It has also increased their bargaining power. The situation is further compounded by the fact that due to increase in population, landholdings have become smaller, and there are many more households looking for fields to sharecrop. The sharecroppers are thus finding it increasingly difficult to secure land for sharecropping.

In both the sample villages, more than 33% of the land that used to be sharecropped earlier is being cultivated by the landowners themselves. There is no security of tenure on the remaining land. Landowners try to split their fields among different sharecroppers. The investment terms are also negotiated and decided afresh every year. Excepting in cases of strong traditional landowner-sharecroppers relations based on the trust of landowners, the sharecroppers do not get the half share of the produce; it has been reduced to one-third, and in some cases, to one-fourth. Almost all the cases of half-share sharecropping involve the absentee landowners, who find it convenient to continue with their trusted sharecroppers.

While labouring inputs have to be provided by sharecroppers, capital investments are shared according to the agreed sharing pattern of the produce, i.e., either one-third or one-fourth. Competition among the sharecroppers however encourages the landowners to demand for extra capital inputs. It is very common for them to ask for additional sacs of fertilizers for securing the rights of sharecropping on their land. Such additional inputs are outside sharing arrangements and whoever offers such inputs in greater quantities gets the land to sharecrop. One villager says that this is because there is no unity among the sharecroppers and they try to ‘bribe’ the landowners to allow them to sharecrop on their land. There seems to be a pervading sense of helplessness among the sharecroppers, as Narayani points out that ‘it is like we keep earning and keep filling their coffers’. On being asked why they keep doing that, she says that the landless households like hers do not have many livelihood options in the
village. There is another reason for this. Some sharecropping households have traditionally been keeping bullocks or he-buffaloes for tilling the land, as it is their responsibility to arrange for the means of tilling the land. In the changing scenario, they find it difficult to bear the expenses of the maintenance of animals if they do not get sufficient land to sharecrop. With one pair of bullocks they can easily manage to sharecrop ten bighas of land and that is why they are desperate to secure as much land as possible for sharecropping.

Usage of high yielding seeds has also made the farmers dependent on seed companies. They cannot use the crop-yield as seeds beyond two to three years as the yield gets increasingly sterile with each cycle of sowing. Thus the sharecroppers need additional amount of cash to buy seeds at the time of sowing. Threshing is no longer done manually and the sharecroppers have to bear charges of mechanised thresherers amounting to 10 kg of food grains per quintal of threshed grains. It is normally shared by landowners in case of paddy but not in case of wheat. In the neighbouring villages, such expenses are not shared in case of paddy too. Thus the agricultural credit needs of sharecroppers have increased and are almost totally met by their landowners for want of any alternative. On the other hand, the changing sharecropping structures have resulted into rigid terms and conditions for such credit. Whereas the total interest at the time of harvesting ranged from one-third to half of the principal amount earlier, in case of new sharecropping arrangements, it is never less than half of the principal amount, which amounts to more than 12.5% per month.

Sharecropping is still much sought after as, in addition to meeting the agricultural credit needs of the sharecroppers, the landowners provide them with food grains for consumption in case of shortages that are common during some parts of every year. There is however a small group of people which does not want to engage with sharecropping, especially in the changing environment. They feel that wage labour is far more remunerative than sharecropping, where one has to keep investing in terms of labour and capital to be able to earn the returns at the end of four months when harvesting takes place. According to their calculations, their hard work is never adequately compensated within the sharecropping arrangements. The whole family gets engaged in the cropping but there is very little surplus after accounting for all the investments. This group mostly consists of the younger and healthier people who do not mind cycling for long distances to get the work, as wage labour work is very seldom available in the village, excepting during the sowing and harvesting seasons. They are also willing to migrate to other places for longer durations leaving their families behind. For elderly people and the women,
working on agriculture remains the best option, as they can neither go out in search of work, nor will be given work when younger and healthier men are competing for the same job. Most of the poor households have such surplus labouring hands, thus they do want to have some land on sharecropping to ensure availability of food grains to avoid starvation. In addition, many men do not want to cycle for long distances every day as it adversely affects their health for want of nutritious food. Some others do not even own bicycles.

6.3.2 Seasonal agricultural labour
As more and more landowners prefer to cultivate the fields on their own, the seasonal agricultural work generates its own demand for labour. Demands are also generated in sharecropped fields when the work is time-sensitive and the sharecropping household does not have sufficient number of hands to complete the work timely. Such an opportunity is keenly awaited by the people, who do not have any land for sharecropping, as also by the people who prefer wage labour over sharecropping. Harvesting of one bigha of wheat crop provides them with 50 kg of wheat after putting in six person-days of labour. There is also demand for labour for weeding at different stages of especially the wheat crop. Such labour is generally supplied by the women, who are paid INR 30-35 a day as, despite their willingness, they are unable to be employed as wage labourers in or around their village in preference over the competing men. Moreover, the women are not in a position to travel outside their villages for work. Only work that is available to them is on their own fields, on their sharecropped fields and seasonal agricultural work. Many women thus remain underemployed even in the unskilled labour market.

The seasonal agricultural work also engages children who contribute by collecting leftovers from the fields after harvesting. Sometimes they are able to collect as much as 70-80 kg of potatoes per household.

6.3.3 Rearing of livestock and community pastureland
Keeping and rearing of livestock as a livelihood strategy is becoming less and less attractive for the poor households in the two sample villages. Principal cause for this consists in the continually decreasing availability of community pastureland in the villages due to encroachment on such land by the powerful people. This is the only land that can support livestock of poor people in absence of their own land. The community pastureland was found
to be totally occupied in both the sample villages, by the *Thakurs*\(^{32}\) of Bhoon at Barakheda, and other upper caste people at Pratappur. Unavailability of this land has deprived the households with no or little land of a livelihood option through raising livestock which is now only available to the people having some land of their own or engaging in sharecropping. It also deprives the landless households of easy availability of firewood, and the women and children of such households have to spend long hours in collecting firewood for their daily needs as none of the households has cooking gas or electric connection. This phenomenon has another serious implication beyond such deprivations. It is making these villages devoid of the trees as the trees on the encroached land are chopped down to make it cultivable. Trees having immense environmental benefits but low commercial values, traditionally planted on community lands, such as Neem, Pipal, Mahua, and Banyan are fast vanishing from such villages. Even otherwise, these villages do not have a tradition of horticulture, and hence the tree cover in the villages is depleting at an alarmingly fast rate.

### 6.3.4 Migration

Another area of livelihood, a majority of poor people especially at Pratappur has specialised in, is manufacturing overhead water tanks. There are only a few contractors who bid for construction of overhead tanks in mainly the Western UP, Delhi and surrounding areas. They all depend on the skills of the people from this and neighbouring villages to complete the tasks. More than half of the households of this village contribute at least one man to the labour force constructing the overhead water tanks. The workers stay at the construction sites where they are provided with the material to assemble barely functional dwelling units. They get paid on the basis of their work output and are not allowed paid weekly offs. On an average a worker earns about INR 3,000 a month and can save up to INR 1,500 if he does not go to the market at all, and cooks and eats at the site.

Work is available for about 8-9 months in a year excepting in rainy season. Migrant labourers stay alone at their worksites and cannot take their families as their conditions of living are very harsh. They have to sleep beneath an asbestos or a tarpaulin sheet. There are no toilet facilities and sometimes they do not get enough water to bathe and wash. It only suffices for their drinking needs. They feel that they do not have any option but to accept this as there is no work in the village. According to one villager, more than half of the population of the

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\(^{32}\) One of the upper and powerful castes
village will starve if this work is not available to them. The statement may be a bit exaggerated but does reflect the importance of this livelihood alternative in their lives.

The people find this work better than working in factories at Kanpur, as a worker in the factories receives about INR 1,500 to 1,800 a month with a twelve hour-a day duty. Staying within factory premises is not allowed, and hence the villagers will end up spending half of their earnings in daily commutation if they choose to work in the factories at Kanpur. Instead of having a rather regular job at a factory in Kanpur, they prefer going to another nearby town, Kalyanpur, about 20 km away, to participate in the labour market that is held every morning, where if picked to work, they get INR 100 in the evening. But getting work is not assured and sometimes the villagers do not get a single day’s work for weeks together, and come back empty-handed. About ten to fifteen people from Pratappur go to Kalyanpur regularly.

6.4 Patterns of expenditure in UP sample villages
A majority of routine expenses of poor households is on food. Their livelihood strategies are such that they attempt to meet their foodgrain requirements through agriculture-related works and cash needs through wage labour and other cash earnings. Agricultural produce mainly consists of wheat and paddy with some vegetables, particularly potatoes. They do not grow oilseeds and lentils, and buy other vegetables and cooking oil from the market. As lentils are very costly, they get to eat them very rarely. Their staple food is potato curry with either chapatti or rice. Thus their diet is highly deficient in protein which is detrimental to mental and physical health of especially the children. Even when a household possesses a milch animal, most of the milk is sold off to generate cash, leaving just enough for preparing tea. It has been years for most people since they last tasted non-vegetarian food. At least a quarter of the respondent households in both the villages reported shortage of food and facing hunger at some point in time during last year. According to them, the situation has improved substantially after the introduction of Antyodaya scheme and food subsidy on BPL ration cards. As they do not have a lump sum, they buy provisions in very small quantities and end up paying more than the rates applicable for larger quantities.

Other routine expenses are on clothes. Some households wait for the children to get scholarship and buy their clothes with the scholarship money. Such clothes are mostly the

33 School going children belonging to SC and ST families are given yearly scholarship by the state governments irrespective of their economic status.
school uniforms that they keep wearing the whole day. Clothes for other members of the
household are generally purchased once in a year unless there is some special occasion such as
a marriage. Polyester clothes are normally preferred as they are sturdy and last much longer
than the cottons. Such clothes are however very uncomfortable for at least eight months of the
year. Women in many households are excluded from provisioning of new clothes. In about
80% of the respondent households women reported never buying sarees for themselves after
their marriage. They depend upon the sarees they get as part of various customs in their
parental homes. Such customs ensure that married women in poor households keep getting
clothes; otherwise they would always be the last in the families for being considered to receive
new clothes. None of the respondent households reported buying furniture or utensils when
not required to be given as part of dowry. Other relatively insignificant expenses include those
on alcohol and smoking, celebrating festivals, visiting relatives and entertaining guests. Means
of entertainment in the two villages are rather limited and inexpensive, and may include
watching television at a relatively affluent neighbouring house, and chitchatting and gossiping
with the family members and fellow villagers. A qualitative estimate shows that about 60% of
the earnings of a typical poor household in both sample villages are spent on food and the
remaining earnings are spent on a variety of prioritised activities. They always try to save
some amount, whenever the earnings are substantial, to meet any contingency that may arise
or to maintain their consumption levels when earnings dry.

Major expenses are however those associated with medical conditions and lifecycle events
such as marriages. A boy’s marriage costs a poor household a minimum of INR 35,000, while
a girl cannot be married without spending at least INR 50,000 in both villages. Funerals also
require a minimum expenditure of INR 5,000.

There are two principal reasons for the enormity of health expenses beyond the obvious ones
of not getting nutritious food in adequate quantities to eat, engaging in physically risky
occupations, living in unhygienic conditions, and compulsion of defecating in the open. The
first reason relates to the general preference of the poor for private medical practitioners to the
public medical services. They find public health centres distant and unresponsive to their
needs and conditions. They also find procedures within such centres time-taking, insensitive
and intimidating. A large majority of villagers reported having difficulty with understanding
the written instructions, and spending a large amount of time without being attended to. They
feel that the treatment from private medical practitioners is faster and more effective. They do
not have to wait for long hours to get treated and the doctors are willing to see the patients at their homes. This way they do not have to lose their wages if somebody in the family is to be shown to a doctor. Moreover, according to them, the private doctors behave in a nicer way. That itself evokes a feeling of trust and they think they would be treated better by such doctors than at the government hospitals. Moreover, the private doctors were found to be accepting deferred payments, which again suited the people not having ready cash when a family member fell sick. Some respondents also had experience of the corrupt practices on the part of government doctors. They were reportedly charging money for the services which were required to be provided free of any charge.

The other main reason for high expenses on the medical care was observed to be an almost complete absence of relying on home remedies that have been a part of rural Indian heritage. There was always some pride associated with the assertion that the home remedies were not resorted to and the patient was always shown to a doctor even when there was some fever, a minor cold or cough. Moreover, injections and drips were always considered superior to oral medicines by the poor households in both the sample villages even when these are much costlier. The private doctors operating in both the villages were observed to be under-qualified, who had learned their craft while working as unskilled medicine dispensers in medical stores. They were found to be administering high doses of painkillers and broad-spectrum antibiotics in all the diseases that would make the patient feel better. That was part of the reason why the villagers considered their treatment to be more effective than the government doctors. In all such cases, the private doctors charged heavy amounts. The diseases were however serious in some cases and required a large amount of money on their treatment.

### 6.5 Andhari village profile

Andhari is heterogeneously populated in the largely tribal Dahod district and has 77 households of Bakhsipanch, an OBC community. Remaining 119 households are tribal. The village has two primary schools, three Aanganwadis and a post-office. Like most tribal villages, the habitation is scattered with most people having their houses in the middle of their fields. It is further divided in three sub-villages, called faliyas named, Kakra, Beladi and Andhari. On an average, people in Beladi faliya are the poorest, while those in Kakra faliya are the least poor. Fields in Kakra faliya have the benefit of irrigation through the water from Umaria dam, which was constructed about 30 years ago. The canals reached this faliya about a decade ago. A small rivulet also flows through this faliya.
The village is connected to the nearest town, Limkheda, by a good road, and has electricity. There are two provision shops in the village catering to the daily needs of the people, especially when they want to purchase provisions in small quantities. For other things such as clothes and larger purchases of provisions, they go to Limkheda. Limkheda is the block-headquarter for both the sample villages, and has a PHC, banks and a railway station.

6.6 Kankari Dungari village profile

Kankari Dungari is an entirely tribal village, located at about 5 km from the nearest town, Limkheda, without an approach road. Although all households possess some agricultural land, much of the land is unirrigated. Out of the total 110 households in the village, 105 households have only mud houses with thatched roofs. All the households, excepting five, do not have proper sanitation facilities and their members have to defecate in open land. In some households, even the children are compelled to work. According to estimates, as many as 88 children from 55 households were working to earn. Remarkably, I also found many young children, both boys and girls, having dropped out of the school at a very early age. During my study I met at least 25 teenagers who had either not gone to school at all or had dropped out after one or two years of schooling.

There is one small provision shop in the village catering to the needs of the people in smaller quantities. For larger quantities they go to Limkheda. The village does not have a post-office.

6.7 An analysis of livelihood strategies of poor households in Gujarat sample villages

Tribal societies in the district were mostly dependent on forest produce and were practising an indigenous form of agriculture. Settlement of outsiders brought with it more ‘modern’ forms of agriculture with chemical fertilizers, hybrid seeds and need for irrigation. This also improved productivity of the fields located in the low-lying areas with better soil conditions. Moreover, the quality of soil at the highlands is considerably poor due to both water and wind erosions. The households traditionally occupying the highlands could not benefit from the improved productivity in agriculture and became poorer than their counterparts occupying the low-level fields. This sowed the seeds of stratification within the otherwise largely egalitarian tribal society.
In both the villages, the households that are poor are the ones which either have small landholdings, or have their fields on the highlands and are entirely dependent on rains for growing their crops. After introduction of Panchayati Raj institution in the village, the political power has been grabbed by the relatively richer people. These are also the households who do not migrate out of the villages. This gives them an opportunity to derive maximum benefits out of government schemes. Thus economic and political power is getting centralised within few households in both the villages. This is a new phenomenon for these villages, as not very long ago almost all the households were at similar social, economic and political levels. Such a phenomenon is causing substantial amount of social tension in both the villages.

**6.7.1 Agriculture and land-holding**

Both the villages had almost unlimited supply of land per household until about 50 years ago. According to the old people in Andhari village, there were only four families in the village at the time of Independence. Two of them were tribal, while the other two belonged to Bakhshipanch. All the families at that time had large plots of land but agriculture was entirely monsoon-dependent. With passage of time, the families grew and the land got divided among the sons. Distribution of land is no longer even, and some households with larger number of divisions in the past have smaller areas of land than the others. All the households do have at least some piece of land in both the villages.

Much of agricultural land in Kankari Dungari and about one-third of it at Andhari is unirrigated. Only one crop is possible on such land during the rainy season. The villagers normally harvest two crops if the land is irrigated; both crops can either be maize, or paddy and maize or maize and lentils, depending on the extent of availability of irrigation. They also grow vegetables, mostly for self-consumption, on the land around their houses. The villagers engage in agriculture in their own fields, as practice of sharecropping is totally absent. Part of the reason for this is that almost everybody has some land and the distribution of land is still not very skewed. It is also due to the fact that unlike in UP villages, the landed people here do not consider it below their dignity to work on fields, even without machines, as the population in these villages does not consist of the ‘upper-caste’ communities.

As almost all households have some land, keeping livestock constitutes a much bigger part of the livelihoods of the villagers than in UP sample villages. Excepting in case of the families migrating with all their members, all the households rear some livestock. They also rear
poultry birds for the same reason. Unlike in the UP villages (and again for the same reason that the land is more evenly distributed here), a majority of agricultural production is for self-consumption, rather than for generating cash incomes. They therefore grow diverse crops and their food is more nutritious than their UP counterparts. Almost all the households grow maize, paddy, wheat, pearl millets, millets, lentils, and vegetables. Their diet also consists of milk, eggs and meat in larger quantities than in UP villages.

Women, when not migrating, work on their fields, tend to their cattle, and do their household chores. They also chop and collect the grass in the rainy season and sell it at Limkheda for INR 10 to 15 per head load. Agricultural land is treated as commodity to be sold off or mortgaged to raise money for various needs, especially for the healthcare. This has already reduced land available for agriculture with some households, thus forcing their members to migrate for longer durations.

Kankari Dungari has a much larger portion of its land on higher reaches than Andhari. That is a major reason for poverty being more widespread at Kankari Dungari. Means of irrigation are also more developed at Andhari because of its greater feasibility. However, at least 50% of the households at Andhari are not able to grow crops in winters for want of money and their lands remain fallow. The situation is even worse for Kankari Dungari. This is also because such people consider migrating out of their villages to be more remunerative than engaging in agriculture, particularly in winters, as this requires more investments on irrigation, and their presence in the village for a longer time.

6.7.2 Migration
People migrate from both the sample villages to urban centres such as Surat, Vadodara and Bharuch to work as construction labourers or as casual labourers in various factories. Some of them also migrate to Kathiyawad region to work as agricultural labourers. Kathiyawad is a semi-arid zone in the western part of Gujarat, experiencing a boom in agriculture due to increased availability of water and abundance of land owned by a small section of population. In the two sample villages, there are very few households that can sustain themselves while remaining in their villages. Migration is seasonal and the migrant villagers return to work in their own fields at the time of sowing and harvesting. They also come back to celebrate their main festivals, Holi and Diwali. As agricultural labourers, their daily wages range from INR 80 to 100 per day, while those of an unskilled worker in the construction or other industries
range from INR 100 to 125 per day. Semi-skilled workers in the construction industry command about INR 150 to 200 per day. When a couple migrates along with children, their daily expenses are about INR 70 to 80 a day. Both of them generally get about 15-20 days of work in a month. Thus they are normally able to save about INR 1,500 to 2,000 for a month of migration in case of unskilled labourers.

Most villagers start migrating at the age of 15-16 years. When they get married, their wives also accompany them until such times when they have children. After childbirth some of them remain in the villages to look after the children, but a majority of them keeps migrating along with the children. Some unmarried girls, particularly from tribal families, also migrate along with their extended family members.

Migrants face tremendous hardships at their destinations. They do not have proper accommodation, sanitation or drinking water facilities. They are vulnerable to all sorts of abuse and exploitation. In cases where the children also accompany the parents, they cannot attend schools and thus remain caught in vicious cycle of poverty and migration. The villagers do not want to migrate, but do so due to the push factors such as lack of livelihood opportunities in their villages. In the interviews and informal discussions, all the villagers, without any exception, portrayed migration as a necessary evil in their present situation. They admitted that they will not migrate if they can meet their basic necessities in their village itself. On the other hand, people representing the interests of the industrialists and landowners, employing them on their migration, consider the phenomenon of migration very important for the development of Gujarat. In an informal interview, a senior level government official working in the area, and responsible for the development programmes of the local people, suggested that no programmes should be undertaken in the area to reduce the impact of the factors pushing the people to migrate from their villages.

In Kankari Dungari, at least some members of all the households, barring only four households, migrate from the village in search of livelihoods. At least 48 families migrate along with all the members. In Andhari, some members of at least 75% households migrate for some time during a year and at least 20 families migrate with all their members. The principal reason for lower level of migration from Andhari is that agricultural productivity is higher with much of its land having good quality soil with better irrigation facilities. Generally, tribal women are more likely to migrate than the Bakhshipanch women.
6.8 Patterns of expenditure in Gujarat sample villages

A major portion of poor households’ incomes gets spent on their food requirements. Agriculture produce in case of an average respondent household at Kankari Dungari is sufficient for three months’ consumption only. It lasts for about four months in case of an average respondent household at Andhari. Food requirements for the remaining period are met through the money earned while working as casual labourers.

The next most important item of expenditure relates to their medical and healthcare. Like in UP villages, they do not want to go to the government hospitals for similar reasons, and the private doctors take advantage of their being largely illiterate and uneducated. Many instances were observed during my stay at both the villages where patients were apparently overmedicated for simple diseases and charged heavily for those medicines. Even in case of child-birth they go to private doctors. Many medical practitioners in Limkheda, however, are not qualified to provide such services. During my stay at Andhari, a pregnant woman died while being operated upon to deliver a child by one such doctor, who had some qualification in homoeopathy. Expenses on health are normally met by borrowing on interest or selling some assets, particularly livestock.

Consumption of alcohol is an integral part of the tribal culture, which they traditionally brewed from Mahua flowers. Gujarat being an alcohol-prohibited state, it has become very costly for them to continue with this custom, as they need to bribe the police and other enforcement agencies. Moreover, since they have cash, they prefer buying alcohol from the black-market, which again proves very costly. According to an estimate based on my interviews, 15-20% of their cash earnings are spent on alcohol. Moreover, consumption of excessive and sometimes spurious alcohol has its own implications. It results in many small scuffles that go to police and they are then required to pay bribes to close the cases. It also harms their health thus increasing their medical bills.

6.8.1 Chandlo: A community financial institution

Lifecycle events such as marriages and deaths entail large amounts of expenditure but in most cases it gets managed with the money collected through a custom called chandlo vidhi. Chandlo is monetary contribution that relatives and other community members make towards

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34 Liquor they get from outside has generally more alcohol than the traditionally brewed liquor for the same quantity of drink.
the expenditure a household is incurring on a funeral, marriage, or other social occasions. Although such a custom is prevalent in other parts of India, but it is always at a much smaller scale. Here, the contribution may be as high as INR 15,000 on a single occasion.

Chandlo seems to be the community’s response to a deficient financial—especially savings and credit-infrastructure, based on trust and mutual dependence. It harnesses the social capital of the localised tribal community to facilitate all its members to adequately celebrate social occasions. In effect, it works as a savings mechanism to be encashed at the time of need for a lump sum. If some households do not have a social occasion for about five-six years, they organise a chandlo with some other purpose, mostly construction or upgradation of their house, to recover the money they contributed as chandlo to other households.

It has, however, started getting oppressive now with conditionalities such as the recipient having to pay double of the amount she received for her chandlo, to the chandlo-organising household. Such amounts over a period of time become very large and many households have to resort to borrowings to be able to give chandlo. At least five relatively better off respondents reported that they migrate to earn money to be able to pay chandlo. If it was not for chandlo, they would never migrate. Continuously increasing amounts of chandlo also raises the levels of expenditure incurred on their lifecycle events. Some resistance seems to be building up against the oppressive forms of chandlo.

6.9 Financial needs and addressing them: Poor households in UP and Gujarat

The foregoing description is a simplistic sketch of the poor households’ financial environment in UP and Gujarat; a little more than averaged out scenario. Their actual situations are much more dynamic, changing everyday with new unexpected expenditures in addition to assured expenditures but not much unexpected windfall. They are never certain if they will be able to earn the wages the following day, except perhaps during transplanting and harvesting seasons. The case studies in Appendix 2 throw some more light on the dynamics of their financial environment. Financial needs emerging from such environment and the ways of their addressing them are discussed in the following sections.

6.9.1 Savings

Whenever a wage labourer gets her wages she attempts to save some amount for future use after providing for immediate consumption and repayments. As the inflow is highly uncertain
she has to frequently dig into her savings to keep afloat. Poor households therefore need savings mechanisms that allow frequent transactions with very small amounts. For want of such mechanisms, the villagers who do not have bank accounts keep the money in their houses, attracting the risk of thefts and destruction due to fire or collapse of their mud houses during rains. Even the households having bank accounts, as a result of financial inclusion drives or other programmes of the government, do not use these accounts for saving their money. This is because travelling to the bank to deposit or withdraw money encroaches upon their working hours. The post-office hours of functioning also clash with their working hours. That is why they always welcome people who deliver the savings products at their doorsteps.

This partly explains the success of deposit collecting organisations as well as the Life Insurance Corporation (LIC) employing local agents to collect deposits, or insurance premia in case of LIC. These local agents attend to their clients when they are back from their work and are at their homes. The needs for savings must be very strong as the villagers keep using these savings mechanisms in the face of the risk of being cheated as is described elsewhere in this chapter. There is also a tendency to treat life insurance premia of the LIC as a kind of savings mechanism, but there is again a risk of defaulting on the rigid payment schedules of LIC and losing out the entire deposit, if the insurance policy is discontinued before the completion of a minimum lock-in period. In most cases, such period is three years, and no respondent in any of the four sample villages was found successful to hold an LIC policy beyond that period. One respondent at Andhari defaulted on his policy and lost INR 2,700 paid for three premia, as his brother fell sick and he did not have money to pay the premia. He has however acquired another LIC policy after about a year, which strongly demonstrates his need for savings instruments that do not impinge on his working hours.

On the other hand, migrant villagers do not consider it safe to keep the saved money with themselves, as they live at their worksites only. They keep it with their employers and retrieve it when they go back to their villages. They do not want to open a bank account at their work place as they do not know the people there. They cannot trust even the banks as they do not know what is happening on the paper due to their illiteracy.

Members of SHGs have a channel of saving INR 30 per month regularly but very few were found to be actively saving with their SHGs. Involuntary nature of such savings was not found very appealing to them, as their SHGs did not allow them to save when they had surplus
money. They were however compelled to save on the day of meetings even when it was difficult for them to arrange for the money on that day.

6.9.2 Leveraging on land

Larger expenses especially on healthcare, marriages and repayments of old loans are met by borrowing and selling the assets. The asset sale is normally in terms of livestock. If saleable livestock is not available or its sale does not generate the expected sum, they sell the land. Five respondents each at Pratappur and at Andhari, and three at Kankari Dungari had to resort to such distress sale during last three years. Land is used in other ways too to raise money for large and unexpected expenses. It may be mortgaged to the lender during the entire period of repayment. Mortgaging of land entails the lender to cultivate the land and consume the total yield in lieu of waiving off the interest on a loan. Loan-tenure is not fixed and the land remains with the lender until the last rupee of the loan is repaid. There is no standard rate of loan prevailing for mortgaging a unit of land. It depends upon the bargaining positions of both the parties, with more desperate needs fetching less amount of loan per bigha. Highest amount of loan was observed to be INR 10,000 per bigha in Pratappur, while the lowest was INR 1,000 a bigha at Kankari Dungari.

Money may also be raised by giving away the land on balkat which is essentially the sale-purchase agreement for one crop or all the crops for a year. The landowner gets the entire agreed amount at the start of the agreement period and the purchaser uses the land for the specified period unconditionally and takes away all the proceeds. After the period of agreement, which was not found to be exceeding one year in any case, both the parties renegotiate if the agreement is to be further extended. Again, no documents are made for balkat transactions and these are guided by the trust between the two parties. Land mortgages and balkat, however, further reduce the land available with the poor households and reduce the marginal farmers to landless labourers.

6.9.3 Borrowing

Poor households need credit for agricultural inputs, fertilizers, irrigation, engaging labourers on the fields, construction of their houses, medical treatments, lifecycle event, and sometimes in pursuit of alternative livelihoods to be able to avoid the ills of migration. Most of their borrowings are through informal mechanisms either from their landowners or moneylenders. None of the respondents is a member of farmers’ cooperative societies in UP sample villages,
which are important source of agricultural finance in UP. They do not qualify to be a member of such a society because of their meagre or nil landholding. This also prevents them from acquiring Kisan Credit Card (KCC)\(^{35}\). It is theoretically possible for the sharecroppers to acquire a KCC but for that they would need a valid documentation on their sharecropping arrangements, which no tenant has. In Gujarat, a majority of the respondents could borrow from their respective cooperative societies, but their district cooperative bank failed in 2005, and this option is no longer available to them. Some households in Gujarat had recently acquired KCC and about 20% of the total respondents had taken their first loans on KCCs, which met their agricultural credit needs.

Although Moneylenders Acts in both the states prescribe the moneylenders to be registered, with penalties in case of non-registration\(^{36}\), no moneylender was found to be registered in case of any of the sample villages. They were also reportedly charging much higher rate of interest than prescribed. According to the villagers, interest rates are never less than 60% per annum in case of Pratappur, Barakheda and Andhari, and 120% in case of Kankari Dungari. A majority of loans in Andhari also carries more than 120% rate of interest. At least one loan at Kankari Dungari carried an interest of 300% per annum. Interest rates depend upon the urgency of the need and the borrower’s social and economic status. As loans take longer time to be repaid due to excessive rates of interest, there is invariably some need for another loan while repaying the earlier loans, and thus the cycle goes on. More importantly, the moneylenders do not meet the short-term requirements for the smaller loans as it is not remunerative for them commercially. In one case, a moneylender refused to accept a repayment of a loan after three months at Pratappur, mentioning that he accepted repayments only after two years of extending the loans.

More than 90% of the respondent households reported borrowing a substantially large amount (more than INR 5,000) during last five years for different purposes. Some of them borrowed on more than one occasion. About 60% of them borrowed to marry their sons or daughters with an average amount of INR 26,000 per borrowing, while 70% to get the medical treatment with an average borrowing of about INR 23,000 and 17% to construct their houses, with INR 19,000 as average amount per borrowing.

\(^{35}\) KCCs were introduced by the government of India in 1998-99 as revolving cash credit facilities to the farmers. The credit limit on KCC depends upon the operational landholding and cropping pattern.

\(^{36}\) According to Section 22 read with section 10 of Uttar Pradesh Regulation of Money Lending Act, 1976 for UP; and Section 34 read with Section 5 (Cognizable) of Adopted Bombay Money Lenders Act, 1946 for Gujarat.
In addition, borrowing of relatively large amounts of INR 1,000-5,000 was resorted to by all the respondents at some point in time. Such loans are accessed to meet expenses on agriculture (own as well as sharecropped fields), medical treatment of livestock, treatment of relatively insignificant ailments afflicting one or more family members, and make contributions to meet marriage expenses in the extended families. Such needs arise much more frequently than the needs requiring loans of larger amounts. Such borrowings thus take place more frequently. Households having SHG memberships were found benefiting immensely from the SHG loans for this segment of credit. In a few cases people also borrowed to buy livestock, especially a buffalo or a cow, but such loans were taken only when they were available from a formal source, such as banks, under some government scheme, or through their SHGs. With the minimum interest rates being more than 60% per annum in case of loans from the informal sources, they do not prefer borrowing for such risky investments, even when such investments have the potential to improve their incomes.

Much smaller loans in cash as well as kind are even more frequently needed for very short terms in order to just keep afloat, ward off hunger, purchase prescribed medicines in smaller quantity or simply offer a cup of tea and snacks to a visiting guest. These needs are usually met with the help of neighbours, but as neighbours are also normally in similar situation, it is not always possible. These loans may in fact have the strongest impacts on their general well-being, especially in view of high irregularity and uncertainty of their incomes and consistency of such needs for money. Provisions of smaller loans for shorter terms are however clearly absent even in informal credit markets in the villages; as such loans do not generate adequate interest incomes to impress the moneylenders.

Importance of credit in the lives of poor households is summed up by a remark made by one of the respondents at Pratappur that ‘we are all surviving on interest [meaning loans]; if that is not there we will all die either due to hunger or disease’. Cheaper loans therefore can make a big difference in their lives. Due to precisely this reason, four respondents in Pratappur and two in Barakheda mentioned that they benefited from the IRDP loans and they wanted reintroduction of IRDP or introduction of a similar programme. They were however not aware of SGSY programme that replaced the IRDP.
6.9.4 Insurance

There is an acute need for insurance as most poor people in the sample villages are at high risk in their occupational as well as in their routine life spaces. A vast majority of informal sector employments they engage in is hazardous, and is without adequate provisions for safety measures. There were several instances of migrant labourers dying, while at work, and their bodies being brought to their villages with only the due amounts of their wages. In 2008, three construction workers and a driver belonging to Andhari died while working, but their families did not get any compensation from their employers. None of them had any insurance cover.

Moreover, they reside in poorly constructed houses in geographical settings that are more prone to disasters. Their residential areas have more incidences of infectious diseases while they have an extremely limited access to proper healthcare. In addition, their staple food falls short of their nutritional requirements. The situation is further compounded by their very little exposure to formal education. In addition, as mentioned earlier, healthcare expenses constitute a major part of poor households’ budgets. Health insurance in such a situation assumes paramount importance not only because they would be spared of spending large amounts of money at one go, but also because they will be spared of getting treated by unqualified and fraudulent medical practitioners. Livestock insurance may also be beneficial for such households as there were several instances of deaths of animals thus leaving their owners substantially poorer. Crop and property insurance provisions are also important for them due to similar reasons.

There is neither an awareness of the availability of insurance mechanisms, nor such mechanisms acknowledge their specific insurance needs, and their financial conditions including irregular cash inflows they frequently encounter. Some villagers do acquire life insurance policies of LIC under the influence of the local people working as agents but are unable to meet the requirements of regular payments over a long period of time. Such policies invariably lapse, making them poorer by the premium amounts already paid by them. Even when their property is insured, lack of awareness does not allow the poor insurants to take advantage of insurance-provisions. For example, two respondents were unable to claim the insurance amounts due to their ignorance of the procedures when their buffaloes, purchased on a subsidised loan under a government scheme and insured as part of the loan requirements, died.
AABY and JBY initiated as measures of social protection have not been implemented in UP villages, while only eight households are covered under AABY in Gujarat. They were however not aware of the provisions of the schemes and were not confident of availing the benefits when I made them aware of the scheme.

6.9.5 Remittance

People from a majority of the respondent households in the Gujarat sample villages and Pratappur derive their livelihoods by migrating from their villages seasonally. They therefore require suitable remittance services, as they have to travel back to their villages for delivering money to the remaining family members in the villages. They also occasionally entrust their friends or relatives travelling back to their villages with such remittances. Such arrangements for remittance prove to be very costly for them not only in terms of travelling costs but also in terms of loss of wages during the periods of absence.

The respondents were however not comfortable in using the post-office MO service,\(^ {37} \) as they were hesitant to approach the post-offices at their migration destinations. They were also unable to trust the people and the paperwork at an unknown place, due to their inability to comprehend the contents of such papers. Only one respondent at Kankari Dungari reported to be using MO service perhaps because he was adequately exposed to the service due to the MOs being sent by his brother serving with the Indian Army.

6.9.6 Frauds and cheating

Lack of financial infrastructure and continued existence of unsatisfied demands for financial services, particularly the savings, and to some extent insurance services, has made both the areas under study a breeding ground of unscrupulous companies and people out to cheat the villagers. As a strategy, such companies employ local people as their agents. These agents influence the people in the area to deposit money, using their easy access to the communities in their own as well as in surrounding villages. In Kanpur, a company called Asma offered people various savings products both in Recurring as well as in Term Deposit categories. The company appointed local agents, who would collect the deposits at the doorsteps of the customers. When time for maturity of the instruments arrived, the company simply vanished, vacating its office premises in Kanpur. The people could not recover their money from the\(^ {37} \) Described in the Appendix 8
agents as the agents themselves did not have many assets and belonged to their own larger communities.

Similarly, various private finance companies lure the people in Dahod district to purchase automobiles financed by them. As the people in the area are mostly uneducated and are not very methodical in tracking the instalments being due, they usually default on the payment of the regular instalments. The companies have hired goons who then confiscate the vehicles, thus making the people poorer by their down-payments. These vehicles are then used or further sold by such companies. In one case in Andhari, the client could not repay his third instalment and his vehicle, which was bought to be used for public transport, was snatched away from him. He had earlier sold off his fields to make a down-payment of INR 52,000. Worse still, the vehicle was put to use by the finance company where it met an accident killing a man. As the vehicle documents were in the respondent’s name, he has got a court notice enclosing a demand of INR 1.2 million as compensation by the family of the deceased.

Local agents, representing both public and private sector companies, were also reported to be cheating the people. Taking advantage of the lack of literacy among their clients, they either provide receipts of lower amounts than deposited, or give them forged receipts. The companies also refuse to entertain them on the ground that they will honour the commitment only if they have received the money as per the companies’ official records. The agents misinform the clients about the products and the status of their companies. The agents of PACL India Ltd. were found to be selling their investment products in both sets of sample villages as the Term Deposits maintaining that their company was a bank. Although their paper instruments contained the details of the products, the clients were not able to read them as the instructions were in English. Thus the clients were vulnerable to be misinformed and misguided. The agents of PACL were also found to be involved in under-reporting the deposits.

Migrant labourers of Dahod district keep their savings with their employers only. While coming back to their villages they leave the money, surplus of their needs, with their employers. This mechanism makes them vulnerable to the risk of losing their money. Being illiterate, they can be easily manipulated while rendering the accounts for their money,

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38 The product involves allotting a land plot to the client and the payment on maturity depends on the appreciation of the value of the land plot after the company develops it.
especially when the larger amounts are accumulated than they are used to. Moreover, their families are also deprived of their savings at the time of their untimely deaths as nobody, other than them, knows the exact amount being kept with such people. Many instances were reported when people felt that they had not got the total money, either belonging to them or to their deceased relatives, back.

Microfinance programmes in such a situation hold a great promise, as it was the continued exclusion of poor from the provision of financial services that gave rise to microfinance.

6.10 Microfinance programmes in the UP sample villages

A Kanpur-based NGO, Shramik Bharti was entrusted to organise the women members of the beneficiary-families of Sodic Land Reclamation Program\(^{39}\) into SHGs in Kanpur Dehat district. The first phase of the programme got over in 1999 and Shramik Bharti had to withdraw from the villages. The SHGs, left to fend for themselves, gradually started becoming dysfunctional.

Second phase of the Sodic Land Reclamation Programme started in 2001-02 and new SHGs were created in the same villages. Around the same time, the NGO got partnership with the Swashakti programme of the Government of India, and the old SHGs were revived within this programme. After Swashakti, the old SHGs were supported under Poorest Areas Civil Society (PACS) programme of the Department of International Development (DFID) until 2007. Second phase of the Sodic Land Reclamation Programme was over in 2006.

The two sample villages are located in Maitha block where around 100 SHGs were organised in the first phase and 65 in the second phase. Before the PACS programme was over, the NGO facilitated the SHGs to federate at the block level so that they may remain functional without any external support. The federation is now offering fees based services to its member SHGs and ensuring that their meetings take place regularly, books are written competently, and the repayment of loans is smooth\(^{40}\). The federation is supporting and monitoring three SHGs in

\(^{39}\) A programme initiated by the state government-owned Uttar Pradesh Bhoomi Sudhar Nigam

\(^{40}\) It is to be mentioned here that as the PACS programme did not cover all the blocks in Kanpur Dehat district under Shramik Bharti’s Sodic Land Reclamation Programme, the SHGs in at least one block, Bilhaur could not be federated and are not being supervised. They may therefore be in as bad shape as those in Dahod district discussed later.
Pratappur. The NGO had earlier organised one SHG in Dhool village that had membership in Barakheda village also, but it is dysfunctional now.

In addition, the Rural Development Department of UP government had promoted two SHGs in Barakheda and seven in Pratappur under SGSY programme. None of the SHGs was however found to be functioning. No MFI is operating in the two villages.

6.11 Microfinance programmes in the Gujarat sample villages

An NGO, N. M. Sadguru Water and Development Foundation, Dahod, was enrolled by Gujarat government to organise SHGs in various villages of Dahod district under Rashtriya Sam Vikas Yojana (RSVY). The NGO accordingly formed 15 SHGs in Andhari in 2004. A fieldworker was assigned the task of organising and nurturing these groups. He was expected to facilitate the SHGs to hold their monthly meetings, open their accounts in local banks, coordinate with the banks to sanction and disburse loans, and help them in record-keeping. The support to the NGO under RSVY was discontinued in 2007 and the NGO also stopped catering to the SHGs. Left to fend for themselves, the SHGs started collapsing. At the time of this study, the SHGs were in various stages of disintegration and none of them was found functioning properly. Members had discontinued their regular monthly savings, and monthly meetings were not held in any SHG for about a year.

In Kankari Dungari, another NGO, Gramin Vikas Trust had earlier organised two SHGs. Both have however become dysfunctional and there is no functional SHG in the village. SHGs were also formed under SGSY scheme of Government of India in both the villages by the banks and the government agencies. None of these groups is functional and the members were found blaming each other for cornering the loans and not repaying them. Their stands and statements could not however be verified due to the informal nature of many of such transactions and also for want of preservation of the records by the SHG leaders.

Gujarat government has set upon itself a target of establishing 140,000 SHGs, named Sakhi Mandals, in the state by the end of 2010, to be nurtured and supervised by Aanganwadi workers and NGOs. Members of Sakhi Mandals wherever formed have already started distrusting their leaders, as the books and registers had not reached the Mandals by December 2008, and there were instances of the leaders monopolising the receipt of internal loans.

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41 A Government of India scheme to facilitate development in the most backward regions in the country.
One MFI, Vardan Trust, is also operational in Gujarat sample villages. It offers loans to the members of either already-formed SHGs or forms its own SHGs for the purpose. Loan amounts range from INR 5,000 to 12,000 and are given for income generating activities only. Loans carry an interest rate of 18% per annum, treating the SHG membership as the only collateral. Vardan Trust collects repayment on weekly instalments from the week immediately following the disbursement of a loan. While sanctioning a loan, the MFI charges a non-refundable amount of INR 501 (including document fees of INR 200, assessment fees of INR 200, enrolment fee of INR 51, and risk coverage for INR 50 that ensures the waiver of the loan in case of the death of a borrower). There is also a provision of a security deposit to the tune of 15% of the loan amount. It is either adjusted in the last instalment or is repaid to the borrower after she clears the loan.

Although no instance of non-repayment was noticed, the clients seemed to be uncomfortable with the rigid repayment procedures and compulsory weekly instalments, as most of them did not have any means to generate regular weekly incomes. None of the respondent clients of Vardan was willing to be its repeat client.

6.12 Microfinance coverage of the poor in the two states
Group mechanism of microfinance does not seem to appeal to the very poor segment of the people in both sets of sample villages. In Gujarat sample villages, only 25% of the households belonging to the official BPL lists were ever represented in any SHG, even when such SHGs were specifically organised for the BPL households. Currently, not even 10% households in these two villages remain members of the SHGs. Similarly, in UP sample villages, only about 15% of the BPL households were ever associated with any SHG. The percentage has now come down to as low as 5%.

There is no SHG functioning in Barakheda and Kankari Dungari villages, consisting almost solely of SC and ST households, as well as in the localities consisting of SC households in Pratappur. Very poor households never became clients of the only MFI functioning in the study area of Gujarat. The respondent households that enrolled to become clients of the MFI’s credit programme were not willing to be its repeat clients.
The respondent SHG members however found such membership immensely beneficial especially in terms of having access to cheap and assured credit.

7 Empirical perspectives from AP

7.1 Kaikondaigudam village profile

About 10% of the households in Kaikondaigudam belong to the OC communities, while about 40% belong to OBC. Around 30% of the total households are ST and 10% SC. Two OC households own more than 30 acres of land and ten other OC households and five OBC households possess more than five acres of land. None of the SC or ST households owns more than 5 acres of land. Around 50% of the households do not have any land, of which about 90% belong to SC and ST communities. Most of the households are Hindu with only ten being Muslim. All the Muslim households are landless.

Average size of a household, less than five persons, is much smaller in comparison to UP and Gujarat sample villages. Earlier a majority of the households did not have toilets but either they have it now, or are in the process of constructing it with the help of IAY and TSC. All the houses have electric connections with electric fans and televisions, which is luxury for a majority of households in Gujarat sample villages despite having electricity connections. None of the households in UP sample villages has electricity connection.

7.2 Bachalakoyagudam village profile

Bachalakoyagudam is an entirely tribal village, inhabited by Koya tribe. Landholding pattern, therefore, is more homogeneous in this village than at Kaikondaigudam, with no household having more than five acres of land. Only ten households are entirely landless. Much of the land under possession of the villagers is still not registered in their names. Like most tribal settlements in the country, here also early tribal initiatives into agriculture cleared the jungle patches to practise agriculture. Action is underway to register the land in their names in accordance with “The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006” promulgated by the government of India. There is an approach road to the village but it is not connected with any public transport network, and the nearest bus station is about 3 km away. All the houses have electric connections with electric fans and televisions.
Despite being one of the remote and tribal villages, size of an average household, less than five members, is much smaller than that in UP and Gujarat sample villages.

7.3 An analysis of livelihood strategies of the poor households in AP sample villages

7.3.1 Agriculture and allied activities

Almost entire land of Kaikondaigudam is irrigated through tube wells, and agriculture is mechanised to a large extent. Land is tilled through tractors and a majority of landowners prefer cultivating their land themselves with the help of casual labourers, to sharecropping. Sharecropping is now largely limited to the absentee landowners. Their number, however, is not insignificant due to spread of education and many people belonging to the landowning class getting employment and settling down in the towns. Due to their affinity to the village communities, they do not snap their ties with their ancestral village and allow their land to be sharecropped by the poorer households. This arrangement does not require their prolonged presence in the village, and their land remains safe and protected from encroachments. Due to this, sharecropping is the principal livelihood strategy of about 10% of the landless households at Kaikondaigudam. The practice is however diminishing as the new generation of absentee landowners prefers leasing out their land to get cash, which is bargained and fixed for each crop. Tenants also seem to be welcoming this arrangement due to their increased access to cheaper credit because of their participation in the institution of SHGs.

Practice of sharecropping is almost absent at Bachalakoyagudam as the landholding pattern is less skewed here. Some households unable to cultivate their land however lease it out for cash considerations. Much of the agricultural land in the village does not have means of irrigation. The villagers with the help of the state government are practising Non-Pesticidal Management (NPM) of agriculture that requires them to use less water for irrigation, and much less investment on fertilizers and pesticides as they use bio-fertilizers and pesticides, which they themselves prepare. According to them, this practice has increased productivity of their fields in terms of quantity as well as quality, in addition to saving them from harmful effects of chemical pesticides. Main crops are cotton and red chillies. Fields with assured availability of water also produce paddy but it is grown in only about 10% of the land.

As in the UP sample villages, reduction of land under sharecropping has increased the demand of casual agricultural labourers in Kaikondaigudam. They are needed for sowing,
transplanting paddy, weeding, harvesting, and irrigating the land. A large majority of landless households, including those engaged in sharecropping, offer their labour to meet such seasonal agricultural demand. Landless households at Bachalakoyagudam generally derive their livelihoods as seasonal agricultural labourers on the fields of landowners in the neighbouring villages. Many landowners in the surrounding villages have more than ten acres of land and need a regular supply of labourers. This generates work for not only the landless but also the landed households of Bachalakoyagudam.

As the landholding is not large in case of any household in Bachalakoyagudam, they all need to diversify their livelihoods. Some households also engage in mango-plucking in the mango-season. Most of them keep livestock, as they have land to sustain it. Some households in Kaikondaigudam are also engaged in fishery activities at the village ponds, while some others rear sheep.

7.3.2 Non-farm livelihoods

There are several factories around Kaikondaigudam making granite slabs and polishing them. Many people at the village, especially men, get wage employment at these factories, with daily wages amounting to INR 150-200. These factories also attract migrant labourers from the surrounding area that provide a significant part of the clientele to 36 provision shops functioning in the village. Most of these shops were opened with the help of bank loans routed through the SHGs to landless households and are doing good business. Thus they constitute an important livelihood strategy of these households. As the village is located near the district headquarter, the villagers, mainly the men, seek wage employment of the casual nature at Khammam, when they do not have any engagement in or around their village. Some small farmers are engaged in growing vegetables to be sold at Khammam, while five men drive small passenger vehicles. Moreover, at the time of this study, there was a significant amount of construction activity in the village due to sanction of a large number of subsidised houses under IAY and many people were getting engaged to work either on the construction of their own houses or the houses of their neighbours. For this reason, people having skills on carpentry and plumbing, and the electricians, were receiving steady supply of work.

One landless household has started a business of readymade garments with the help of an SHG loan amounting to INR 60,000. She gets running cloth from Chirala in the neighbouring Krishna district, stitches it and sells it in the village and at Khammam. Another landless SHG
member borrowed INR 67,500 from her SHG to acquire a machine for her husband that removes dust generated by the stone cutting activities at granite factories. Both the households are generating substantial surplus after providing for the repayment of their loans.

Four households have opened small provision shops at Bachalakoyagudam with the help of bank loans channelled through their SHGs. Some people also specialise as construction workers and get sufficient work round the year due to construction activities at a large scale in the area particularly due to many IAY houses being under construction. At least five persons have specialised in carpentry for the same reason and are getting significant amount of work. Some households have purchased equipments to be used for construction and are renting them out. One landless household has purchased a concrete mixing machine at the cost of INR 40,000 with the help of SHG loan. They are generating INR 600 per day by employing the machine in and around their village for about 100 days in a year.

NREGP works have also become an important aspect of livelihood generation in both villages and at the time of this study, 150 villagers, mostly women, were engaged in the NREGP works at Kaikondaigudam. Although there was no work going on at the time of study at Bachalakoyagudam, the villagers willing to work on NREGP had got employment of up to sixty days each during the last two years.

7.4 Patterns of expenditure in AP sample villages

As in UP and Gujarat sample villages, a major portion of poor households’ incomes in AP sample villages is spent towards meeting their food requirements. It is however substantially less in terms of percentage of income in case of an average AP sample household than in cases of UP and Gujarat sample households. Reason for this is that average level of incomes is much higher here than in UP and Gujarat due to considerably higher availability of employment opportunities, much of which is attributable to the extensive social protection programmes of the AP government. A quick estimate suggests that an average respondent household does not spend more than 50% of its total income on food and clothes. None of the members from the respondent households needs to resort to distress migration for physical sustenance.

The quality of food at an average AP respondent household is also better nutritionally than that at the respondent households in UP and Gujarat. In addition to rice, vegetables and lentils
are consumed in almost all the meals along with regular consumption of milk. Eggs and meat are consumed occasionally but much more frequently than at UP and Gujarat respondent households. Even the poorest household did not report any incidence of food shortage during last 2-3 years.

Another important item of expenditure in case of AP sample households relates to the education of their children. Unlike in case of respondent households in UP and Gujarat, children of school-going age invariably go to school in case of AP. No child was observed to be taken out of the school for want of money or to share the household responsibilities. Some children even from very poor households are also able to go for higher studies which is unthinkable for the poor respondents in UP and Gujarat.

However, as in UP and Gujarat sample villages, respondents in AP spend a substantial amount on healthcare for the reasons not very different from those in UP and Gujarat. In cases of small ailments they go to the under-qualified private doctors available in the village itself. Even in cases of major medical problems, they do not go to public hospitals. They find going to the public hospitals as time-consuming, and their treatment not very effective. They do not understand their procedures and are made to run around. They have to therefore spend a much larger amount on their healthcare than would have been the case if they were going to government hospitals\(^{42}\). The situation is however improving after introduction of the government health insurance programme, Aarogyashri that has enrolled some good private hospitals in addition to the government hospitals. Its full impact will only be felt in coming years.

### 7.5 The microfinance programme

AP government has constituted an autonomous body, Society for Elimination of Rural Poverty (SERP), which is implementing Indira Kranthi Patham (IKP) project in all 22 rural districts of AP. The project methodology involves mobilising and organising rural women in SHGs of 10 to 15 members. Activities of the SHGs revolve around regular savings by their members, credit (from both internal and external sources) and regular (weekly excepting in case of

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\(^{42}\) It is important to point out here that the government hospitals are extensively used by the relatively influential people and local elite in all the three sample areas, which reduces their medical bills substantially. This phenomenon of poor running much higher medical bills than relatively affluent in the same geographical spaces further exacerbates the prevalent inequality among different economic classes and misdirects the State spendings on health.
newly-formed SHGs) meetings. The SHGs have been federated at village levels into Village Organisations (VOs). The VOs have been further federated as Mandal Organisations (MOs) at mandal (sub-district) levels. All SHGs in a village contribute two members to their VO (one member in case of more than 20 SHGs in a village), while every VO in a mandal sends two of its members to the concerned MO. All the MOs have organised themselves into District Organisations (DOs) at district levels. Rotation of leadership is prescribed to take place once every two years for all the organisations. Excepting SHGs, all other organisations meet once every month. The SHGs, VOs, MOs, and the DOs are being increasingly involved in implementing and monitoring various government development programmes through IKP. By the end of June 2009, 10,182,181 women had been organised into 850,671 SHGs, 35,525 VOs, 1,099 MOs, and 22 DOs (Government of Andhra Pradesh 2009).

A major difference observed in microfinance programme in AP sample villages from similar programmes at UP and Gujarat is that it is almost totally inclusive. The women from all the households, excepting very old and destitute, are members of SHGs in AP sample villages. Moreover, the SHGs are not formed as part of some project with limited currency. They are organised with a long-term purpose of developing and nurturing them to become an important community institution for delivering not only microfinance, but also becoming a platform to converge government social protection programmes with the community initiatives.

A massive exercise was undertaken in 2002-03 under the aegis of IKP to identify the poor in the rural areas with participation of local communities. The exercise did not consider the BPL lists already prepared by other government agencies as they were prepared without consulting the local people. The exercise was completed in March 2003 and the people who were poor but not members of any existing SHG were identified and encouraged to participate in the meetings of the existing SHGs to expose them to the functioning of the SHGs. They were then motivated to either join the existing SHGs or form the new ones. Identified non-poor were also encouraged to form their own SHGs.

In Kaikondaigudam, the SHG programme was initiated under Mathrubhumi programme (a precursor to the IKP programme) and already had 40 SHGs before the IKP drive was undertaken to almost universalise the SHGs in the village. The drive resulted in organisation of 23 more SHGs, including two consisting of the non-poor, in the village. The new SHGs initially met once a month but gradually adopted the pattern set by the older SHGs to meet
once every week. SHGs of the non-poor continue meeting once every month. All the 63 SHGs are federated at the village level to constitute ‘Jayam’ VO. Bachalakoyagudam has 14 (including three new) SHGs with representation from all the households and are federated into Shri Chaitanya VO. The SHGs in both villages have their accounts in the banks and are accessing financial resources through the banking channel.

The federations at village and mandal levels are organised in such a way that they generate their own resources and are capable of meeting their own expenditures. The VOs employ a bookkeeper and a community activist. Like in case of SHG federation in UP, the VOs in AP sample villages provide bookkeeping support to the SHGs. They also ensure that all the poor women, including the new arrivals in the village as newly-weds, are part of the SHGs.

7.6 Meeting the financial needs of the poor households

Unlike in UP and Gujarat sample villages, respondent households in AP are extensively covered by the provisioning of microfinance. At least one woman of all the respondent households in AP was found to be a member of an SHG. Membership of SHG provided her with an access to involuntary savings mechanism of INR 30 per week and cheap and assured credit.

7.6.1 Credit

At the start of each year, all the SHGs prepare their microcredit plans (MCPs) for the coming year. Such plans are consolidated at the levels of VO, MO and DO, and are submitted to the IKP. The demand for the credit is met through banks’ own funds, the funds provided to the banks under the financial inclusion measures, IKP’s Community Investment Fund, and the funds provided by the government of India from Rashtriya Mahila Kosh (National Women’s Fund). AP government offers interest subsidy on all such loans. Part of the subsidies is retained at VO, MO and SHG levels thus building up their own reserves. These reserves are further used to extend credit, thus increasing the total amount available for the purpose. Regular savings of the SHGs are also available to the members as internal credit. In addition to the bigger occasional loans, SHGs provide their members with an extremely easy access to small credits at frequent intervals through the mechanism of weekly meetings. As noted earlier, such credit is very efficient in smoothening the consumption of poor households with irregular and uncertain incomes.
Review of MCPs for various SHGs reveals that the demand of credit per member per year ranges from INR 20,000 to 40,000 per person. Some members also chose not to demand for credit at all. Such members constituted about 20% of my respondents. All such respondents however borrowed small sums at the SHG meetings on numerous occasions during the previous year.

Channelling of credit through the SHG-bank linkage arrangements was observed to be working smoothly in case of Kaikondaigudam. In case of Bachalakoyagudam, the SHGs were found to be facing difficulties in securing their due credit timely, as its mandal, Julurpad, is one of the most backward mandals in the state with only a single bank branch.

A positive implication of such elaborate credit network is that none of the respondents reported to have accessed credit through any informal mechanism after becoming members of the SHGs. As these loans are much cheaper than the loans accessed by their counterparts in UP and Gujarat, their impact is visible in the villages in terms of the heightened economic activity and better prosperity levels. The most remarkable difference was however in terms of their children’s education. In UP and Gujarat sample villages, at least 20% of the respondent households had early school dropouts, and 80% had at least one young person below 20 years of age who had not completed their school education. Less than 20% of the respondent households in AP sample villages had people below 20 years, who were school dropouts or had incomplete school education. More importantly, school pass outs in AP sample villages were almost always likely to enter a university, while it was almost impossible for a school pass out in case of respondent households in UP and Gujarat to even consider entering a university. This is due to the fact that higher education is a costly affair with the students having to live outside their villages and pay for rents and other things. Villagers in UP and Gujarat sample villages could not afford to borrow to meet such expenditures, while the respondent households in AP were willing to borrow to fund their wards’ higher education due to their easy access to much cheaper loans, which may eventually break the cycle of poverty for such households. Even more remarkable is their willingness to spend on their daughters’ higher education. About 20% of my respondents had their children receiving higher education outside their villages and about half of them are girls. Their study areas included engineering and management. All such respondents mentioned that it was not possible for the poor to educate their children outside their villages when cheaper loans through their SHGs were not available.
Subsidised loans were also observed to be substantially enhancing the welfare of poor households. Unsubsidised loans through informal mechanisms were rarely used to meet the consumption needs in the sample villages in UP and Gujarat. Such loans were generally accessed in response to the emergency needs and the requirements of lifecycle events. In some cases such needs forced them to sell or mortgage their productive assets that impacted their incomes and consumptions adversely. In case of AP sample villages, easy availability of cheap credit allowed them to maintain their consumption levels, expand their expenditure levels to educate their children and start their micro enterprises. Unlike in IRDP, where a large amount of subsidised credit was found to be diverted to the relatively well-off and politically influential people, the almost universalised SHG model in AP sample villages ensured that the benefits of subsidies are spread over a much larger population.

This model, however, does not address the issue of larger benefits to the economically better off, as they ask for bigger loans on the basis of their loan absorption capacity and thus get larger subsidies. Poorer households on the other hand apply for smaller amounts of loans due to their limited capacity of loan absorption. The delivery methodology of the subsidised credit through SHGs thus takes care of the supply side issues in IRDP that led to cornering of subsidised credit by relatively small and influential group of people but is not adequate to address the demand side constraints. This situation is comparable to the agricultural subsidy on electricity and fertilizers, which benefits in proportion to the extent of landholding.

7.6.2 Insurance schemes covering life and disability

All the eligible villagers were found covered either under AABY or JBY in AP sample villages as part of a social protection measure. AP government linked the enrolment under the schemes with the membership of SHGs and covered 8,000,000 eligible SHG members in 2008 under the two schemes taken together. Out of these, 3,800,000 women were covered under AABY along with their spouses (Government of Andhra Pradesh 2009a).

Information Technology-enabled ‘Call Centres’ have been established at all district headquarters to ensure the efficiency of after sales operations and speedy settlement of claims. Moreover, local women, known as ‘Bima Mithras’ (insurance friends), have been engaged to deliver immediate financial assistance of INR 5,000 on receipt of a claim. The most important aspect of both the schemes is that the entire delivery system is administered and monitored by
the SHG-infrastructure (DOs, MOs, VOs, and SHGs) by collecting a fee of INR 10 from each member. The fees cover the cost of the awareness programmes, enrolment, data entry, issuing individual bonds, and the administrative costs, such as the costs of Call Centres, Bima Mithras, and DO Sub-Committee members. Thus the system is self-sufficient and is not dependent on any external support including that of the government. According to AP government (Government of Andhra Pradesh 2009a),

[AP government] strongly believes that SHGs and their federations have tremendous inherent management skills and they have manifested their potential by managing their institutions in all the aspects. As the intervention is for the benefit of the community, the management of the interventions is also given to the community.... The SHGs, Village Organizations, Mandal Samakhyas and the Zilla Samakhyas are the institutional infrastructure which is the enabling environment for the implementation of the interventions. Keeping in view of the institutional infrastructure and the social capital like, leaders, community resource persons, activists developed over a period of 6 years, the Government has felt it is appropriate and imperative to utilise the experience and expertise of the SHG federations for the implementation of insurance interventions.

Functioning of the Call Centre at Khammam was observed for this study and the visit of Bima Mithra at Bachalakoyagudam was witnessed. The Bima Mithra provided immediate financial assistance to Natrupullayya whose wife had died due to sunstroke, and assisted him in completing the claim forms and collecting the required documents.

In absence of such infrastructure, it is not possible for the governments in UP and Gujarat to effectively cover all the eligible people and efficiently administer such schemes.

7.6.3 Savings

Despite its success with the delivery of credit and insurance, SHG-infrastructure in AP is unable to provide suitable savings services. It only prescribes for involuntary savings at regular intervals and does not meet the members’ needs to save other amounts at other times. Very poor, especially old and destitute, were not found needing large credits. Their financial needs were met with small loans not exceeding their incomes in most cases, as withdrawals from the savings are not possible. They were, in effect, paying net interest while accessing their own money, as their savings were earning less than the cost of loans in absence of any subsidy on such loans. Such people needed a standard savings product, rather than having to borrow their own money from their SHGs. They are in any case not in a position to use their borrowings in a profitable manner and need them to smoothen their consumption.
8 Coverage of social protection programmes in the sample villages

A majority of the respondents in all the sample villages were observed to be covered under one or more programmes of social protection. This section details the extent of such coverage in respect of various programmes.

8.1 Pensions

Two of the respondents in Pratappur and one in Barakheda are getting old age pension. Two respondents in Pratappur are in receipt of widow pension. In case of Gujarat, 23 persons have been identified to receive old age pension at Kankari Dungari. Two persons are already in receipt such pension. In Andhari, four women are receiving widow pension. Kaikondaigudam has as many as 384 persons are in receipt of pension of some kind, while the number of such recipients is 76 in case of Bachalakoyagudam.

8.2 Public Distribution System (PDS)

Ninety-one PDS ration cards, consisting of 62 BPL and 29 Antyodaya cards, have been issued in Pratappur. In Barakheda, 15 households possess BPL cards, while three have Antyodaya cards. Sixty-four households have been issued Antyodaya cards and 42 BPL cards at Kankari Dungari. Andhari has 57 Antyodaya cards and 65 BPL cards.

All households in Bachalakoyagudam are entitled for subsidised ration. Two households have Annapurna cards, 23 Antyodaya, while the remaining households have got BPL cards. Only six households in Kaikondaigudam are not entitled to receive subsidised food. Out of the remaining households, 70 have Antyodaya cards, two Annapurna, and the rest have BPL cards. Villagers acknowledge the importance of the subsidised food through the PDS, with one of them in a UP sample village remarking that half of the cardholders would have starved if the PDS food was not available to them.

8.3 Subsidised rural housing (IAY) and construction of latrines under the TSC

In Pratappur, seven of the respondent households had got subsidies to construct their houses before 2008-09. During 2008-09, ten more households were disbursed the subsidies. Fifty households got the subsidies for construction of latrines under TSC. Twenty more subsidies for the latrines were sanctioned in 2008-09. In case of Barakheda, five households were provided with the housing subsidies in the past, while two households were sanctioned such subsidies for 2008-09. In addition, 18 households have been sanctioned subsidised latrines.
In Kankari Dungari, four households got subsidised houses in 2006-07, two in 2007-08, and six in 2008-09 under IAY. At Andhari, two households got housing subsidy in 2005-06 under IAY. Two more got it in 2006-07, four in 2007-08 and three in 2008-09. Moreover, one household in Kankari Dungari and one in Andhari received subsidies to construct their houses in 2008-09 under a state government scheme, while three more households received it in Andhari in 2009-10.

Sixty-three subsidised houses were sanctioned under IAY in Bachalakoyagudam during 2008-09. With this provision, all the households in the village have benefited through the financial assistance towards construction of their houses. In Kaikondaigudam, as many as 518 government subsidised houses were sanctioned under IAY during 2008-09.

8.4 National Rural Employment Guarantee Programme (NREGP)
A street inside Barakheda was being laid out under NREGP at the time of this study and at least one eligible man from all the households of the village was engaged in the work. The workers were receiving daily wage of at least INR 100. Eight respondents had worked under NREGP at some point in time in Pratappur prior to this study, while 26 others had the job cards to demand the work under the programme. A total of 192 job cards have been issued at Andhari, while 90 cards have been issued at Kankari Dungari. In 2009, 1,830 person-days of employment was created at Andhari, and 2,910 person-days at Kankari Dungari. In AP sample villages, all the willing villagers got 60 to 70 days of work during the last two years.

8.5 SGSY and insurance schemes
Fifteen people have been granted subsidised loans under SGSY at Andhari. Out of them, 12 people were given subsidies of INR 3750 to purchase buffaloes. Remaining two were provided with INR 10,000 and one with INR 7,500 for opening provision shops. In Bachalakoyagudam, subsidy amount of INR 150,000 was distributed between the two existing SHGs, while subsidy of INR 399,000 was provided to six eligible SHGs in Kaikondaigudam, and their members were encouraged to buy and rear sheep.

As regards insurance, seven households have been covered under AABY at Kankari Dungari, while one has been covered at Andhari. All the households have been covered either under
AABY or JBY in Bachalakoyagudam, while 882 households are so covered in Kaikondaigudam.

9 Social protection and the financial environment of the poor

The above statistics suggest that social protection provisions constitute an important aspect of the financial environment of the poor households. On the one hand, pension and NREG programmes improve the cash inflow while on the other hand, programmes such as subsidised housing and latrines improve their asset base and the quality of their lives. Provision of subsidised food helps them to smoothen their consumption and allows them to build some surplus if they otherwise keep maintaining their livelihoods. According to Ajwad (2007), the pension schemes improve the welfare of recipient households appreciably. His calculations based on the NSS data for 2002-03 indicate that on an average, old age, widow and disability pensions contribute 12.0%, 11.9%, and 11.8% respectively to the recipient household expenditures.

10 Conclusion

This chapter presented empirical perspectives and constructed the financial environment of poor households in the sample villages in terms of their livelihood strategies, patterns of expenditure, financial needs and the measures they are adopting to address such needs. Nature and extent of provisioning of microfinance in the sample villages were then described. Meeting of financial needs through an extensive provisioning of microfinance in AP sample villages was captured and was contrasted with the situation in the other sample villages. Coverage of the poor households within the selected social protection programmes was estimated, which indicated that the social protection programmes have become an important aspect of the overall financial environment of the poor. It is thus evident that microfinance and social protection target similar sets of people but are largely delivered in isolation of each other in UP and Gujarat. AP experience however points towards some implications of the synergistic delivery of these two micro-level strategies in terms of meeting the financial needs of the poor households and improving their financial conditions.

The next chapter analyses other major findings emerging from this research and explores the structures and mechanisms causing the exclusion of the poor from microfinance practices in UP and Gujarat, and their inclusion in AP. It further analyses the inter-linkages of social
protection with microfinance delivery in AP, their impact-implications for both microfinance and social protection, and the causal processes giving rise to such implications.
Chapter 6

Analysis of major research findings

1 Introduction
This chapter analyses the major research findings. The analysis uncovers underlying structures and mechanisms that are causing exclusion of poor households from the microfinancial practices in UP and Gujarat sample villages. Such structures and mechanisms are contrasted with those in AP, which facilitate the microfinancial inclusion of the poor, to gain a deeper understanding of the microfinancial exclusionary causal processes. The chapter further analyses the needs for financial services felt by the recipient households generated by various social protection programmes. Impact implications of meeting such needs and delivering social protection through microfinancial delivery channels are then analysed in the context of AP sample villages. The chapter also outlines the importance of such arrangements for strengthening the poverty-impacts of microfinance and social protection, the two important poverty-reducing strategies at micro levels. It concludes by highlighting the importance of involving India Post towards service delivery of social protection-linked microfinance in the interest of the poor households in India as well as in its own interest.

2 Structures and mechanisms causing microfinancial exclusion in UP and Gujarat villages
Primary analysis of the empirical data from the three sample states reveals that the poor households are generally excluded from microfinance in UP and Gujarat, but are almost totally included in AP. This section analyses various causal mechanisms and structures for such exclusion in UP and Gujarat.

2.1 Institutional aspect of microfinance delivery

2.1.1 NGO-promoted SHGs
As described in the last chapter, the SHGs in UP and Gujarat were promoted by the NGOs with financial support of government as well as multilateral donors. In Gujarat sample villages, when the RSVY programme, within which the SHGs were organised, was over, the NGO also stopped supporting the SHGs. It discontinued holding their meetings and maintaining books without putting in place any alternative support system. It did not develop sufficient financial resources for the SHGs to outsource this work on commercial basis. Remarkably, the NGO
was well aware of the limited currency of the RSVY programme, but did not ensure that the capacities of the SHG members are adequately built to continue their activities in the absence of the programme.

At least five SHGs in Andhari had their membership among the migrating women. These members migrate to Vadodara and other places along with their husbands, and remain there for a good part of the year. Monthly meetings of such SHGs thus did not take place and the individual members deposited their required savings\(^{43}\) whenever they came back to the village. Loans were also sanctioned and disbursed to them without ensuring the presence of other members as that was not practically possible in most cases. This process caused a significant amount of distrust among the members and affected the group dynamics adversely. The NGO did not devise any alternative mechanism before embarking on enrolling this set of women in their microfinance programme, as organising a standard SHG does not appear to be the ideal way to deliver microfinance to them. Somehow the SHGs were made and shown to be functional when the fieldworker was attending to these SHGs, but afterwards, they ceased to function completely.

The experience suggests that the members in most such cases were not able to acquire adequate skills to be on their own in terms of arranging to meet regularly, write the minutes of their meetings, collect savings and loan repayments, and deal with the matters relating to banks; leave alone writing or even understanding their accounts that involve complex arithmetic. It is a matter of further research whether this happened because the NGOs had not invested sufficiently in the capacity-building of the SHG members or the time duration of the programme itself was not enough for such capacity-building. It is of course also dependent on the initial conditions of the members, which will differ greatly interstate as well as intrastate.

This whole process however resulted in waste of precious resources, became counterproductive, and damaged the bonhomie and thus social capital already existing in the villages. It is therefore important for both the governmental agencies and the participating NGOs to have concrete vision of how to have support systems in place after the programme has run past its currency. The banks in the SHG-Bank Linkage model cannot be expected to achieve this as the bank staff is extremely busy and does not have time or patience to nurture

\(^{43}\) Equivalent to their regular monthly savings multiplied by the number of months of their absence
the SHGs. Moreover, a vast majority of them are still not sensitised for this kind of banking even while working in the regional rural banks. Additionally, when they see the SHGs promoted under various programmes disintegrate after the programmes are over, they do not remain motivated enough to invest their precious time and efforts in a losing cause.

The SHGs promoted by Shramik Bharti in Kanpur also faced similar constraints but the NGO got funding support for a longer duration\textsuperscript{44}, and when the funds finally dried up, the NGO had used the time and available resources to establish a federation of SHGs to provide them with continued support without requiring outside financial help. More importantly, the SHGs, due to a long period of outside support had generated sufficient financial resources of their own to be able to comfortably pay a fee of INR 910 per annum. As against this fee, the federation provides them with stationery, bookkeeping and annual audit supports. It also deputes a person to facilitate holding of monthly meetings and supports the SHGs to recover its loans if a member is defaulting.

\textbf{2.1.2 Sakhi Mandals}

\textit{Sakhi Mandals} were found to have been formed only in Andhari and not at Kankari Dungari at the time of this study. These \textit{Mandals} were also found to be adopting short-term measures and not investing enough time and resources on institution-building. In order to get good grading in their evaluation by banks, they were found adopting a strategy to show their success in lending through their own resources and collecting timely repayments. They simply withdrew an amount (normally INR 1,000) from their savings account; kept it with one of the \textit{Mandal} leaders and deposited the same to the account with INR 10 as interest, recording that INR 200 each were lent to five members. The duration of such lending was shown to be as small as one week by a \textit{Mandal}. In no case, it was shown to be more than a month. The \textit{Aanganwadi} workers neither know, nor have been adequately trained on the importance of the institution-building. They have not been sensitised that the gradation process is an instrument of institution-building and not merely a procedural requirement to obtain credit. Banks did not seem to have time or inclination to go into details of how the \textit{Mandals} were manipulating to get good grades for making them eligible to obtain credit. Additionally, some \textit{Mandals} were also observed to have been lax in holding regular monthly meetings.

\textsuperscript{44} Although it had to juggle between different sources
2.1.3 SGSY SHGs

Agencies of the state government and the banks have been entrusted to organise SHGs under SGSY. Field officials of these agencies and banks do not have time, motivation or adequate understanding required to build such community institutions. That explains why none of the SGSY SHGs were found functional in any sample village.

In a model being followed in UP, private persons are engaged as facilitators by the concerned agencies to form SHGs under SGSY on incentive basis. Incentives are available to them at the points in time of formation of the SHG, sanction of the first credit limit to the SHG, sanction of the second and larger credit limit to the SHG, and so on. The amount of incentive also increases with each successive stage. These facilitators were found to be totally ignoring the SHGs after receiving their first incentive amount on submitting the list and signatures of the SHG members to the bank. The amount they would get after nurturing an SHG to the stage of securing their first credit line is not remunerative enough on their ultimate cost-benefit analysis. They can form many more SHGs within the time period they spend to nurture an SHG to the next stage. They however approach an SHG to coordinate with the bank to get its credit line if they get to know that it is functioning on its own and has reached a stage to be eligible for the first tranche of credit from the bank. This way they would be entitled to a bigger incentive on the SHG receiving the loan. In other cases, the SHGs disintegrate without getting any benefit of the subsidised loans and causing distrust among their members.

After securing the first loan for the SHG, the facilitators again disappear from the scene and it becomes even more difficult for the SHG members to keep running their groups, and maintain records of regular savings, loan repayments and outstanding amounts of loans with each member. Already existing power relationships within the SHGs and illiteracy of many members lead to inner conflicts on the distribution of loan amount, and accounting of repayments and outstanding loans. Bank loan is thus not repaid fully and timely, which is a prerequisite for obtaining the subsidy. In the two sample villages, none of the SHGs reached the stage of obtaining their first loan and thus were deprived of the subsidised credit available under the programme. The facilitators, however, got their incentives. A part of SGSY budget was thus shown to be utilised without benefitting the targeted population.
2.1.4 Microfinance Institutions (MFIs)

During the study I did not come across any satisfied client of Vardan Trust, the only MFI in the sample villages. Credit products of the MFI are perceived as extremely rigid due to their unflinching insistence on weekly repayments. It is not always possible for its clients to arrange for cash week after every week in a rural situation. All of them were found to be favouring SHGs over MFI for obtaining credit, as the SHGs can be flexible and accommodative of the circumstances of the borrower because the members know each other well. In any case, the SHGs never follow weekly repayment schedules.

Vardan clients also claim that their savings as part of Vardan SHGs do not earn any interest. In case of other SHGs linked with the banks, the savings kept in the banks do earn interest. Moreover, when these savings are used to extend credit to the members, called internal lending, they earn substantial amount of interest. In case of Vardan SHGs, entire amount of savings goes to Vardan and is not rotated for internal lending and thus does not earn any interest.

Although Vardan staff denied it, their clients alleged that the MFI charges INR 100 for each day’s default. They also allegedly misbehave with their borrowers in cases of default. Due to these reasons, two of the MFI client-respondents had to borrow from moneylenders to prepay the Vardan loan in full. They are so upset with the MFI that they now advise everybody against it. Serious gaps in communication were also observed. All the interviewed clients felt that they were cheated by INR 501, as they did not understand the concept of non-refundable fees while being granted a loan. In any case, the processing fees were found to be very high for small loan amounts averaging to be INR 5,000 for an average period of one year.

Vardan products are better suited for the urban clients earning incomes on daily or weekly basis. In the rural setting, they are only suitable for the businesses like shops which yield regular returns and not for a vast majority of the small and marginal farmers and the landless labourers.

2.2 Group-based microfinance methodology and social capital of local communities

The SHGs in UP and Gujarat were found to be heterogeneous in terms of their membership. The leadership patterns in both sets of SHGs were observed to be reflective of the power structures prevailing in the village communities. In UP villages, the leadership of the SHGs
(president and treasurer) rested with the women belonging to the most empowered castes in case of Shramik Bharti SHGs as well as the SGSY SHGs. No rotation of leadership was observed in any of the functioning or now-defunct SHGs. The “low” caste members felt that they were discriminated against while sanctioning loans and were generally excluded from the decision-making processes. Respondents within the SHGs and outside of it mentioned that only president and treasurer of the SHGs decide whom to give loans and whom not to. Ramshri, an SC member of Jay Durge SHG in Pratappur, felt that her and other members’ money was being used by the president and the treasurer of the SHG for their own purposes, as the SHG did not have a bank account for more than two years of its formation. She also felt that her viewpoint was never heard and the two leaders ran the SHG in their own way. Incidentally, her SHG has only two Brahmin members; one of them is the president and the other is the treasurer. In Gujarat SHGs also, most of the leadership (chairperson and secretary) positions were held by Bakhshipanch 45 women in case of all the SHGs with mixed memberships of tribal and Bakhshipanch women.

There is a strong evidence in UP and Gujarat of poorer, less aware, less assertive and weaker members being manipulated by the stronger members, who, coming from more influential social and economic backgrounds, get to occupy the leadership positions. SHG model has not developed any institutional mechanism to prevent this. The mechanisms of regular meetings and NGO members’ visits were not observed to be very effective in this regard. The bank managers, who were interviewed, were of unanimous opinion that the leaders completely dominate the SHG proceedings. In many cases, even the loan amount is disbursed between themselves. Villagers outside the SHGs also shared this view. About 33% of them cited this reason for not joining any SHG in the village. Others, however, did not get the opportunity.

Thus the SHGs, rather than empowering the weak, were found reproducing and strengthening the existing powers structures in UP and Gujarat. Moreover, when they disintegrated for want of the outside support, they harmed the sense of unity among the more disadvantaged members and thus impoverished the social capital that existed among them before the SHGs were organised. Such problems have been overcome in AP sample villages by taking special care to organise SHGs of homogeneous sets of people in terms of their social and economic

45 A caste treated higher than tribals in caste-hierarchy
conditions. Care is also taken to avoid disintegration of the SHGs by creating self-sustaining mechanisms through their federations.

2.3 Issues of trust: The trust capital

According to Harisalo and Miettinen (2002), trust that people are able to bestow on the institutions gives rise to a capital, trust capital, the force of which is even stronger than that of the financial and human capitals. The SHG methodology depends heavily on generation and nurturing of trust capital within the SHGs in order for them to be able to play a significant role in their members’ lives. Due to this reason, one of the largely accepted fundamental tenets of organising an SHG is that the group should consist of the members of similar social and economic backgrounds, preferably from the same smaller locality in a village. This was not followed in both sets of sample villages. One of the reasons for the disintegration of the groups could be attributed to the heterogeneity of the groups.

Illiteracy of the SHG members is also one of the major reasons for their distrust for the group leaders, especially when the financial activities within the groups are entirely based on written words and numbers. As most of the SHG members are illiterate, they are not able to read the books and start distrusting their leaders who understand it more, and do not share it transparently within the SHGs. It seems that the poor, illiterate members are not willing to be perceived as being manipulated, and suffering from non-transparency, even if it results in dissolution of the groups and borrowing at much higher interest rates from outside. Federating the SHGs seems to be a step in right direction in such a situation, as presence of an outsider in the meetings lends some sort objectivity to the proceedings. This also ensures external audit of their accounts at least once every year.

Lack of proper administrative mechanisms further contributes to the members becoming distrustful of institutional processes within the SHGs. Sakhi Mandals being established with a vengeance by the government of Gujarat had not been supplied with registers and books even after six months of their formation. All the members of the Sakhi Mandals who were interviewed were concerned about safety of their deposits. They wondered on what basis they would get their money back when the transactions were not being recorded properly.
2.4 **SHG meetings as instrument of empowering the members**

Mechanism of holding regular meetings of all the members of an SHG is an important instrument to achieve the overall objective of organising the SHG. The meetings are expected to empower the women members of the SHGs within the gender, social and economic dynamics of rural communities. However, the SHGs in both the sample sets were not found holding their regular meetings, excepting in case of the SHGs being supervised by their federation in UP. The SHGs in Gujarat held their monthly meetings as long as the NGO fieldworker attended to the SHGs. In the SGSY groups in both the states, a tradition of regular meetings never developed. *Sakhi Mandals* in Gujarat were also observed to be falling short of the requirements of holding monthly meetings. This was observed to be defeating the very purpose of initiating the SHGs, not only in terms of empowerment of its members but also in terms of efficient provisioning of microfinancial services.

Even in case of federated SHGs in UP, meetings were not being developed as an instrument to empower the women and enlarge their role in the wider village community. Contrary to the claims of the NGO, all the respondent SHG members mentioned that they did not discuss anything beyond financial transactions in their SHG meetings and no common issue of the village was ever taken up in the meetings. On being asked if there was any benefit of the SHG to the village, president of an SHG at Pratappur firmly said, ‘no’. It was apparent that she and other members of the dominant communities were more concerned with their own personal gains. Moreover, any benefit to the community at large can upset the power equations in the village, which is advantageous to the people like her, at present.

The situation is however quite different in AP sample villages where all the SHGs, barring two consisting of non-poor members, are meeting on a regular weekly basis. This is partly due to their homogeneous membership and their continued supervision by their federations. The most important cause is however their being engaged in the delivery and administration of various government programmes including social protection measures. They thus need to discuss various aspects of such deliveries and administration in their meetings, which becomes a tool to empower the poor women with their larger involvement in the issues affecting their lives and livelihoods. The government officials at various levels also attend SHG meetings at their corresponding levels, which makes the SHG members aware of their rights and entitlements, brings them closer to the government agencies, and aids to their empowerment.
2.5 Inadequate loan amounts

According to Srinivasan (2009), the average new loan size per SHG across the country was INR 45,960 in 2008, while the average repeat loan size per SHG was INR 90,195. Assuming an average SHG consisting of 14 members, the new loan works out to be INR 3,283 per member, and the repeat loan INR 6,443 per member, which fall way short of meeting the credit requirements of the poor, as discussed in the preceding chapter. This amount is highly inadequate for a poor household to start any income-generating enterprise, or meet its consumption, medical or lifestyle needs.

In Gujarat sample villages, new loans to the SHGs were only to the tune of INR 11,000. Repeat loans were also to the tune of INR 11,000 and 22,000. Only two SHGs, while they were functional, could manage a maximum loan of INR 33,000, thus providing a maximum of INR 3,000 per member. To make the matters worse, the SHG leaders tried to grab as much as they could, within such limited credit. In case of an SHG in Andhari, the chairperson garnered INR 10,000 out of a loan of INR 29,000, thus leaving INR 2,000 for one member and INR 1,000 each for remaining 17 members. In case of another SHG, the chairperson took away INR 17,000 out of a loan of INR 22,000 sanctioned to her SHG.

All the SHG members, interviewed in Gujarat sample villages, had borrowed outside the SHGs to meet their needs. They had obtained loans from their relatives, neighbours, moneylenders, and local shopkeepers. The loans from the neighbours and relatives generally came interest-free but were in smaller quanta. Larger loans, when collateralised, attracted an interest in excess of 36% per annum, while unsecured loans carried a minimum interest of 60% per annum. In Kankari Dungari, at least three borrowers had taken loans at 150% and one at 300% per annum. Borrowed amounts ranged between INR 10,000 to 150,000. Thus, microfinance was not observed to be making a dent in the rates of interest being charged in the sample villages, and, if at all, the business of moneylending has only increased in last few years. This observation is in conformity with the findings of All-India Debt and Investment Survey (NSSO 2005). The survey revealed that there was an increase in the share of moneylenders from 17.5% in 1991 to 29.6% in 2002 in the total outstanding loans of rural households.
Situation is however different for the three Shramik Bharti SHGs in Pratappur. Members of these SHGs were able to get much larger amounts of credit, ranging between INR 10,000 and 50,000. Only five of the SHG member-respondents had to resort to borrowing outside their SHGs. These members belonged to the SC communities and had misgivings about the way loans were being distributed within the SHGs. The interest earnings of the SHGs ranged between INR 40,000 and 90,000 per annum. Such interest earnings were being distributed among the SHG members at the end of each financial year, thus subsidising the interests on their own loans. Members getting lower amounts of loans, thus, were in receipt of higher earnings through the interest amounts earned by the SHGs. Similarly in case of SHGs in the AP sample villages loan amounts are generally sufficient to meet the borrowing needs of their members as they have been able to manage large bank credit limits due to their longer existence and the government’s provision of financial resources to the banks for such purposes.

2.6 Complicated accounting procedures

The overarching purpose of initiating the SHGs is to make essential financial services accessible to a population currently beyond their coverage. Any mechanism initiated for this purpose should therefore be conducive to adequately facilitate an efficient delivery of financial services to such people. The SHG-bank linkage model as being practised in the sample villages was not found to be satisfactorily serving this purpose. Accounting procedures for the financial transactions within the SHGs were found to be too complicated for the SHG members to be able to handle all by themselves. The procedures were found to be requiring some level of understanding of accounting and arithmetic, which is not always available with the SHG members. Even when some members of an SHG understand it, the other members do not follow the complexity of it and start distrusting their fellow members.

In case of the RSVY groups in Gujarat, the bank opened three-year Recurring-Deposit (RD) accounts in addition to the already standing savings accounts, after disbursing the loans. All the regular savings were deposited in the RD accounts, while the loan repayments went to the savings accounts. Along with the loans, the bank also provided the SHGs with group credit card passbooks for withdrawing the loan amounts within the credit limits. Thus, each group had to manage three accounts and three passbooks. The bank’s rationale for opening of RD accounts was that it accrued higher interest and reduced the risk of the SHG leaders.

46 The SHGs charged an interest of 24% per annum on the loans. This amount came to the SHG wholly in case of the loans being granted out of their own reserves. On the bank loans also, they got 12% per annum, as the banks only charged an interest of 12% on their loans.
withdrawing their savings. This however effectively meant curtailing the freedom of the SHGs to internally lend and make better use of their funds, as was happening in case of Shramik Bharti SHGs in UP. Internal lending to the members would have earned much higher interest for the SHGs and helped their members in their need. The amount in RD account was blocked for three years. Interestingly, the NGO did not deem it fit to intervene to protect the interest of the SHG members. Moreover, as in case of Shivshakti Mahila Mandal in Andhari, savings amounts were changed from INR 30 to INR 50, but some members still kept saving INR 30. Loan amounts and the repayments were also not homogeneous. Managing all this needed some complex calculations, which neither the leaders nor the members of the SHG were observed to be capable of.

Thus the SHGs require outside support to be able to manage the accounting of their complex financial transactions, and if such support is not available they cannot function in any meaningful way. This was one of the major reasons for the disintegration of SHGs observed during this research, as the SHGs left on their own were unable to manage their accounting. Lack of this ability within the SHGs caused their members to distrust each other and also their leaders. Federating the SHGs appears to be one viable solution in such a situation, as federations can secure the outside accounting and bookkeeping support through the collective resources of their member SHGs. This mechanism also empowers the member SHGs as they do not have to depend on outside financial resources for the purpose and can make their own decisions. The federations can also use their resources to train the capable SHG members to perform this job for their own as well as for the other SHGs in due course of time.

2.7 Poor households and the SHGs

Foregoing analysis suggests that the structures and mechanisms underlying microfinance practice in UP and Gujarat villages do not encourage the poor households to join microfinance. Mechanisms overtly excluding them were also observed in UP and Gujarat sample villages. As mentioned elsewhere, there is no SHG functioning in Barakheda and Kankari Dungari villages, as well as in the localities consisting of SC households in Pratappur. This is because the people are poor, and belong to the SC and ST communities; the SHG-promoting NGOs do not consider them as prospective clients, and consider them as risky and burdensome. If they were somehow included in an SHG to make the numbers, they themselves withdrew due to the treatment meted out to them and also due to the distrust they had for the SHG leaders, as was observed in case of the Shramik Bharti SHGs in Pratappur. President of an SHG in
Pratappur, and a member in the governing body of the federation, stated that they had been told to restrict the enrolment in the SHGs to the people who could make full and timely repayment of the loans. She further clarified that such people are the ones who had assets such as land or had some business with good regular incomes. President of another SHG mentioned that the bank managers also discouraged them to extend the loans to the poor. The SGSY SHGs, which were meant for the BPL households, could not be continued because they were supply-driven and the mechanisms designed for organising them did not allow them to be nurtured adequately enough to last long.

The poor on the other hand did not find the available microfinancial services adequately suitable to meet their financial needs, and were therefore reluctant to join the SHGs. Moreover, designing of such services did not take into account the role social protection programmes are increasingly playing in shaping the financial environment of the poor households in the two states. A majority of poor households in UP and Gujarat sample villages were found to be in receipt of benefits of one or more programmes of social protection. Financial needs generated by such benefits were not found being met through the existing financial service delivery mechanisms.

The SHG programme in AP villages was however observed to be intrinsically linked with the social protection programmes targeting the poor households. Leveraging on the enhanced social capital generated by the SHG movement, the AP government has increasingly involved the SHGs and their federations in implementing and monitoring various government development and social protection programmes. This has resulted in greater coherence of the microfinancial services, delivered through the SHG mechanism, with the benefits accruing to the SHG members through social protection programmes. Such coherence has ensured enhanced participation of the poor in microfinance in AP partly because the poor are finding such products useful. They were also not considered burdensome and risky by the other SHG members as they were assured of getting the monetary and other support at regular basis through the social protection programmes. They were therefore allowed, and were able, to fully participate in the SHG-centred microfinance.

3 Social protection and generation of new financial needs

PDS authorises the ration cardholders, identified on the basis of their poverty situation, to access their quota of subsidised food once every month. Cardholders, not having sufficient
money at the time of distribution, are not able to procure the entire quantity of food they are entitled to, and thus are deprived of a part of the subsidies meant for them. Such incidents were common in UP as well as Gujarat sample villages. Accessibility to small credit may enable such households to claim the total amount of support available to them under the programme. Thus the distribution mechanism of food under the PDS creates a need for small credit at regular intervals. The benefits of availability of small credit were evident in the sample villages in AP where the members of the SHGs frequently borrow small sums of money from the collection of their regular weekly savings. As dates for food-distribution are fixed in advance, the women not having ready cash to pay for subsidised food borrow it at their weekly SHG meetings immediately preceding the dates of distribution. Poor households in AP sample villages were therefore found to be accessing their entitled food subsidy in its entirety.

Amount of assistance under IAY for the construction of a house covers less than 70% of the total cost associated with constructing a simple one-room dwelling without a toilet. The beneficiary households thus need additional financial resources to complete the construction of their houses. Lack of access to suitable credit services deprives them of taking full advantage of this scheme. As a result, all the houses in UP and Gujarat sample villages sanctioned during the last year, excepting in one case, were found to be incomplete and uninhabitable at the time of this study as the beneficiaries were not able to arrange for the required amount of shortfall. They were however not willing to avail of the informal credit available at a minimum rate of interest of 60% per annum. As AP government has linked bank credit with the scheme through the SHGs, all the beneficiaries in AP sample villages, without any exception, accessed the credit and were able to complete the construction. Construction of latrines under TSC also encountered the same fate in UP and Gujarat sample villages, while in AP villages the latrines were timely constructed and put to use due to availability of adequate credit at reasonable cost.

In case of the pension schemes, the recipients may not have enough money to participate in involuntary savings on the day of SHG meetings. On the other hand, they may have some surplus to save on the day of receipt of such pensions. Thus their saving needs generated by the pension schemes may not be met while being part of an SHG, having non-pensioners also as members, with rigid involuntary saving methods. In Kaikondaigudam, all the villagers receiving disability pension have been organised into an SHG. As they receive their pension
once every month, their SHG collects their regular savings once every month while other
SHGs in the village collect it once every week. Since the savings channel provided by the
SHG follows their cash inflow and thus meets their saving needs, they are all actively
participating in their SHG. They have been able to build a lump sum through such savings and
some of them, such as Bhadru and his wife, have been able to use their consolidated savings to
start a provision store of their own.

In their study in Karnataka, Natu et al. (2008) observe that financial inclusion drive had more
impact when it was linked with the implementation of NREGP, as such drive is found to be
meeting the financial needs generated by the programme. NREGP participants were thus
found to be using their accounts more substantially than their non-participant counterparts.
They were also found to be more informed of the drive than non-participants.

4 Impact implications of microfinance-social protection linkages

It may also be inferred from the above analysis that the availability of financial services that
substantially meet the needs generated by the social protection measures contributes towards
deepening of the impact of such measures. In case of PDS ration cardholders the provision of
small amounts of credit timely helps poor cardholders to totally utilise their entitled food
subsidy. The IAY housing subsidy is of no use until the house is totally constructed and is
worth inhabiting. Thus this subsidy can have an impact if and only if the recipients are able to
arrange for additional financial resources, and for that the poor recipients would need an
access to reasonably-priced credit products.

Efficient and effective delivery of social protection provisions associated with SGSY and the
State insurance schemes crucially depends on the availability of appropriate infrastructure at
the village level. The SHG programme provided such an infrastructure in the AP sample
villages. As no such infrastructure exists in UP and Gujarat, the villagers are largely deprived
of the benefits of such schemes. No household received SGSY subsidy in UP sample villages
and in Kankari Dungari, as the SHGs formed under the SGSY could not sustain long enough
to claim the subsidy benefits. Similarly the group insurance schemes targeting landless rural
labourers and BPL households were not available to UP sample villages, and only eight
households in Gujarat were covered in 2009. Insurants in Gujarat were not aware of the
implications of the scheme. In contrast, the SGSY subsidy budgeted for the AP sample
villages was totally utilised and all the eligible households were covered under the relevant insurance scheme with the insurants well aware of their entitlements.

In Gujarat, widow pension was earlier disbursed in cash and the delivery arrangement had many logistical problems. Gujarat government collaborated with India Post in 2003 to disburse the pension amount by opening pensioners’ accounts with the post-offices. In addition to making the disbursal of pension more efficient, the arrangement was found to be immensely benefitting the pensioners as it allowed them to have total access to their money. A separate study in Dahod district of Gujarat revealed that the respondent pensioners felt a sense of empowerment and in control of their money when it was deposited in the accounts standing in their names. A large majority of respondents reported not receiving full amount of the pension earlier. A part of it was invariably reported to be siphoned away in the multiple layers of the delivery mechanism. In most cases, the money was never delivered to them directly; rather it was given to one of their male relatives such as brother-in-law, father-in-law, brother or father (Priyadarshee 2008). Thus linking formal savings services with a social protection measure resulted in deepening of the impact of such measures.

In Kaikondaigudam, the disability pensioners have been organised into an SHG. As they receive their pension once every month, their SHG collects their regular savings accordingly, while the other SHGs collect it weekly. Since the savings channel provided by the SHG follows their cash inflow and thus meets their saving needs, they are all actively participating in their SHG.

Engaging the microfinance organisations with the government development programmes has had a positive impact on their efficiency in AP due to largely participatory and inclusive structural characteristics of such organisations. These characteristics were found to be generally lacking with the village panchayats responsible for implementation and monitoring of such programmes at village levels in UP and Gujarat. This adversely affected the delivery of social protection programmes in various ways as discussed in the following sub-sections.

4.1 Identification of beneficiaries

In UP and Gujarat, there were serious allegations regarding both type I (exclusion) and type II (inclusion) errors while identifying beneficiaries for pension, PDS, and subsidised housing

47 Democratically elected rural self-government
schemes. The respondents were highly dissatisfied with the process of identification of beneficiaries that largely depended on the decisions of Gram Pradhan, Sarpanch\textsuperscript{48} and the panchayat secretary (a local level government functionary). None of the villagers was aware of the criteria for such identification. In the discussions and interviews, the villagers demanded to know the criteria of operationalisation of these schemes. They felt that rent-seeking government officials and relatively more affluent people of the village collude resulting in inclusion of non-deserving households. A common theme emerges from the discussions with landless and marginal farmers that since it is not possible for them to spare money for bribing the officials and their own panchayat representatives, they are being excluded from the government programmes meant for them. They strongly advocated for transparency in system, because non-transparency harms the poor and needy the most. Additionally, their ignorance of the rules and procedures regarding such schemes was observed to be making them sceptical of the legitimacy of whatever benefits they happened to receive. They felt that there was more in the programmes than what was being offered to them, even when it was strictly according to the provisions of the programmes.

In case of AP, beneficiaries are identified in consultation with the SHGs and the VOs. VOs and SHGs discuss the provisions in the schemes and eligibility criteria for obtaining their benefits in their regular meetings. All the respondents in AP were therefore fully aware of the provisions in the schemes and there was no complaint of exclusion errors. Instances of inclusion errors were however observed but at the time of inclusion the beneficiaries reportedly fulfilled eligibility criteria in all such cases. The same was also corroborated while recording their life stories\textsuperscript{49}.

4.2 Corruption and rent seeking

The subjectivity involved in the identification of beneficiaries and lack of awareness on the part of the villagers was observed to be encouraging the panchayat functionaries and the local level government officials to engage in corrupt practices and seeking rents in AP and Gujarat. A considerable amount of anecdotal evidence suggested that such practices were very common in the sample villages in both states. There was however no complaint of any incident of corruption or rent seeking from any of the respondents in AP. All the respondents

\textsuperscript{48} Elected heads of village panchayats in UP and Gujarat

\textsuperscript{49} No mechanism however seems to have been designed to address the inclusion errors in the AP villages, which is needed in view of an increasingly large number of upwardly mobile households due to their SHGs and other reasons.
were aware of the provisions contained in different schemes and were confident of receiving them on their turn.

4.3 Issue of ration cards and subsidised food

Beneficiary selection for receiving subsidised food against different ration cards was observed to be suffering from type I as well as type II errors in UP and Gujarat. In addition, there were instances of inordinate delays in entering the names of new additions to the households. New families branching out of their parental households were found to have been waiting for a long time before they got separate ration cards.

The situation was found to be quite different in the AP sample villages. In both the villages, all the respondents, without any exception, had information on the criteria for issuing different cards and procedures to identify the beneficiaries. There was no complaint regarding any exclusion error, or against the government functionaries. It was also reported that if a household was divided, a new ration card was normally issued to the newly established household within 15 days. All the newly established households were found to have got separate ration cards in both the sample villages. Process of making new cards was observed to be simple and transparent. Most importantly, people were aware of it and were confident of obtaining the cards without any difficulty. Villagers were also aware of the procedures of downgrading of cards from BPL to Antyodaya or Annapurna, and had no complaints on that count.

AP government enhanced the subsidy amount on the sale of rice for both BPL and Antyodaya cardholders in April 2008. The VOs then prepared lists of ration cardholders including their names, members in their families, types of ration cards held, entitled quantities of food grains, and money to be paid for food in the new scheme. They segregated and compiled lists of people on the basis of when they would be getting their quota of food. This was planned on the basis of their SHG-memberships. VO members also collected money from the cardholders and provided the shopkeepers with distribution day-wise lists and the money. Involvement of VOs in the process ensured that entire amount of subsidy was passed on to the beneficiaries and there was no scope of its embezzlement.
4.4 Cash disbursal mechanisms

Pension in all cases in AP sample villages is arranged to be disbursed through their respective VOs to avoid seeking of rents by the government functionaries. Entire amount of the pension for a mandal is sanctioned to the MOs and sent to them along with the lists of beneficiaries. MOs then send the amounts and the lists of beneficiaries to the concerned VOs. Both organisations have committees consisting of three members each to oversee and disburse the pensions. On the first working day of every month, VO committee members invariably start distributing the pension and within two days the disbursement is over. Dates are fixed and hence all pensioners try to remain in the villages on those dates. Government has tried to bring the system of pension payments at par with the disbursement of salaries to government employees. Sometimes government employees do not receive their salaries on the first working day of a month but pensioners are ensured to receive their pension timely.

Pension in UP and Gujarat is not disbursed regularly and the frequency of disbursement varies from three to six months. Moreover, excepting in case of widow pension in Gujarat, the pensioners receive it through cheques that they have to deposit in a bank. Thus they waste one day in travelling to the bank to deposit the cheque and another day to withdraw their amount after the cheque is cleared.

4.5 Creating a superior delivery infrastructure

Due to lack of suitable delivery mechanisms the two insurance schemes (AABY and JBY) were not found being implemented at all in the sample villages in UP, while it was implemented only superficially in Gujarat, as the insurants were not aware of the provisions in the schemes. On the other hand, all the eligible persons were found covered either under AABY or under JBY in AP sample villages due to the schemes being implemented and managed by the SHGs and their federations. In absence of such infrastructure, it may not be possible for the governments in UP and Gujarat to undertake such a programme at such a scale. The panchayat system is considerably inadequate to provide infrastructural support to such programmes.

Similarly, due to inadequacy of the panchayat system, agencies of the state government, such as District Rural Development Agency (DRDA), and Rural Development Department along with the banks were entrusted to organise SHGs under the SGSY scheme in UP and Gujarat. Field officials of these agencies and also of banks did not have time, motivation or adequate
understanding required to build such community institutions. This partly explained why none of the SGSY-SHGs initiated in UP and Gujarat sample villages could sustain for sufficiently long time to attract sanction of the subsidy. Thus, in UP villages, nobody received subsidised credit available under the scheme. In fact, five members of the Barakheda SHG lost their entire savings for eight months, while others were able to recover only a part of it. In Gujarat, the subsidies could be delivered only through individual lending mechanisms.

AP government was however in position to make use of the existing SHG-infrastructure for implementing SGSY. It decided to allocate 10% of the SGSY funds for trainings, institution building, livelihood and marketing supports to the existing SHGs. Infrastructural activities including the payment of insurance premia on behalf of the BPL SHG members are financed through 20% of the SGSY funds. Remaining amount is transferred to the eligible SHGs to be utilised as revolving fund and initiating economic activities by their members either individually or in small groups. An amount of INR 549,000 was thus transferred to benefit eight SHGs in AP, while nobody benefited in UP, and only INR 72,500 could be disbursed to 15 persons in Gujarat sample villages.

4.6 Feedback mechanisms
SHG federations in AP have also developed a robust feedback mechanism within the implementation of NREGP with the support of AP government. MOs have constituted social audit committees for the programme. Committee members visit the villages and the work sites, and ensure that all the people at work have their accounts in the post-offices and banks, and their wages are being distributed timely and accurately. They also assess the work site facilities, such as provision of water and shade, for which concerned VOs are responsible. Open forums are held at the mandal headquarters where complaints regarding the programme are heard and the people are made aware of different provisions in the NREG Act. The NREGP authorities present at the forums receive feedback on the system of receipt of wages and other issues relating to the Act. There was therefore no complaint from any of the respondents about not getting work in AP despite their willingness. All the willing persons had got 60-70 days of work in each year after the inception of the scheme and number of women labourers getting work was more than that of the men.

Such platform is not available to the people of UP and Gujarat, and this partly explains why only eight respondents could get some employment under NREGP in Pratappur, while 26
people had not got any employment under the programme despite having been issued job cards for the purpose. Ten respondents were never issued any job cards in spite of being in desperate need of paid jobs. Only two job cardholders reported securing a total of 30 days of work during last three years. No woman in any of the two villages was given any work in spite of the fact that some of them have been issued job cards and have opened their bank accounts.

Remarkably, no public work has been taken up in Gujarat under NREGP. Works have only been taken up at individual land plots to dig wells, three at Andhari and four at Kankari Dungari. No system of employing the workers was observed in any village and it was entirely left to the NREGP-beneficiary landowners to engage workers at their own discretion. Resultantly, a majority of workers belonged to their own households and neighbourhoods. Thus these landowners were found to be major, and in some cases, sole beneficiaries of NREGP due to the lack of oversight of any community institution.

5 Mechanisms and structures causing improved delivery of social protection through microfinance infrastructure

The selected social protection programmes thus appear to have been better implemented in the AP sample villages than in UP and Gujarat, in both lateral and vertical dimensions. The findings however cannot be entirely attributed to implementation of such programmes through microfinance organisations. There may be some underlying historical and cultural differences being manifest through all social and economic phenomena, taking place in the two settings. This study did not attempt to capture those, as that would have exceeded its scope. But no amount of differences in initial conditions, however significant, can fully explain the differences in satisfaction levels of the poor with regard to various social protection programmes. Different implementation mechanisms adopted for such programmes in AP did have their implications for the outcomes evident in AP vis-à-vis those in UP and Gujarat. Structural factors partly responsible for such outcomes rooted in the two different mechanisms are identified in the following sub-sections for deeper understanding of the possible linkages between social protection and microfinance and for informing the policy.

5.1 Incidence of elite capture

Matin and Hulme (2003) point out that societies characterised by the patron-client relationships are more vulnerable to corruption and elite capture, as the nature of social and economic intercourse between elites and non-elites does not allow the non-elites to claim their
rightful share of benefits and rewards. The panchayat system along with many other State-sponsored measures and ever-increasing integration of the village economies with the larger economies has transformed the patron-client relationships in the three sets of sample villages. It has given rise to a new class of elites with newly acquired political and economic power. Needless to say that a whole bunch of erstwhile “patrons” has migrated to this class but it no longer retains the same hold over its “clients”. This new class of elite is attempting hard to monopolise the benefits of government and other programmes in collusion with the government bureaucracy\(^{50}\). They are however more successful in UP and Gujarat sample villages than in AP, as panchayat institutions have not been able to evolve adequate structures to thwart such attempts, unlike the SHG institutions in AP.

Although the panchayat institution is built upon free and fair elections (and that is very much the case in all the sample villages), the accountability mechanisms were not observed to be evolving within the panchayat institution, and the bargaining power of the poor to check the incidence of elite capture was found to be weak. The panchayats were observed to be individual-centric in such a way that the Gram Pradhan in UP and Sarpanch\(^{51}\) in Gujarat were tempted to use their power for their own personal gains and in the interests of the people close to them, for want of effective accountability mechanisms. The arrangement also suits the local government functionaries seeking rents, as it is easier to collude with one person and take decisions on the delivery of government programmes in a manner that improves their chances of rent-collection. Such collusion therefore favours granting the benefits of government schemes to the relatively better off households within their broader delivery norms. The SHG federation model in AP sample villages on the other hand appears to be far more successful in building up organisational capabilities and bargaining power of the poor, and instituting accountability mechanisms, conflict resolution measures and participatory monitoring. This partly explains my observation of almost total absence of corruption at local level and fairer distribution of programme benefits in the AP sample villages.

5.2 Access to information

The panchayat system, in the way it was found to be manifesting in the UP and Gujarat sample villages, allowed its leaders and the local level government officials to control the flow

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\(^{50}\) This study did not find evidence of elites acting in the larger interests of the community as suggested by Fritzen (2007) in his study on Indonesian community-driven projects. The elite control over the processes of delivery of social protection was invariably found to be resulting in the capture of benefits, and rent seeking within the broader delivery norms in this study.

\(^{51}\) Elected head of village panchayat in Gujarat. In AP too, elected head of village panchayat is called Sarpanch.
of information to the prospective beneficiaries of the social protection programmes. This not only facilitated them to distribute the benefits of such programmes to their own favourites but also to seek rents in return of providing the information and helping the non-deserving to secure the programme benefits.

This was however not possible in AP sample villages. The central premise of the SHG model is to keep holding regular meetings. Such institution of meetings has evolved into a very important platform for information sharing and dissemination. The fact that all the respondents in AP knew about the provisions contained in the programmes being implemented for their benefit, underlines the crucial role such institution of regular meetings is playing in the lives of the villagers in AP. Due to their access to the information they were able to demand and receive the benefits they deserved.

5.3 Collective action

As the SHG federation model demonstrates, collective action, especially on the part of non-elites, appears to have been effective in overcoming the problem of elite capture. This finding seems to be contradicting some of the earlier views on the subject such as those of Olson (1965). However, his suggestion regarding smaller groups being less prone to be afflicted from the free rider problem\(^{52}\) than the bigger groups was supported by the findings in this research as Gram Sabhas\(^ {53}\) were found to be suffering more from the free rider problem than the SHGs, which are much smaller in size than the Gram Sabhas. More recent works (e.g. Agarwal 2007; Ostrom 1990) highlight the importance of the role of collective action in addressing the problems of elite capture and corruption, and thus offer an explanation of the varied delivery outcomes of the selected social protection programmes in UP and Gujarat vis-à-vis AP sample villages.

5.4 Participation

The panchayat system allows the villagers to overtly participate through two important formal instruments; elections that normally take place once every five years and Gram Sabhas that are prescribed to be held twice in each year. On the other hand, the SHG model in AP allows women representatives of every household to participate every week through the SHG meetings. Gram Sabhas consist of a large number of people and can be very intimidating for

\(^{52}\) Free rider problem arises when certain individuals or a set of people attempt to gain larger benefits at the cost of others without putting in the commensurate efforts

\(^{53}\) Village assemblies consisting of all the adult villagers
the poor people with low self-esteem. This phenomenon was also witnessed by me in a separate study in the villages of Kachchh district in Gujarat where the agenda of the Gram Sabhas was being monopolised by the relatively affluent and powerful. The poor, especially those belonging to the socially and economically depressed communities, and the women, were observed to be totally avoiding the meetings of Gram Sabhas (Priyadarshhee 2005). As the SHGs in AP are much smaller, and more importantly, far more homogeneous in terms of social and economic conditions of its members, they are far more conducive for participation than Gram Sabhas. Thus the SHG model provides more space and better visibility to the women from depressed classes than the panchayat system, without needing mechanisms such as affirmative actions.

Moreover, as the SHG model is primarily based on small amounts of thrift and credit, the relatively richer people are not as enthusiastic to participate in SHGs as the poorer ones. For example, the SHGs consisting of the non-poor in Kaikondaigudam were meeting once a month and not on weekly basis. This further strengthens the role and the visibility of the poor women.

5.5 Leadership and decision making

According to D'Exelle and Riedl (2008), processes leading to the poorest community members assuming the leadership positions within the community programmes facilitate more equitable distribution and better utilisation of resources. This study does not fully support their argument, as some more fundamental structural changes may be needed for a leader belonging to the poor communities to be able to deliver pro-poor outcomes. Thus even when the Gram Pradhan at Pratappur belonged to the SC community due to the consequence of affirmative action, he could not further the interests of the members of his own social and economic class. The situation in Pratappur was no better than in Barakheda Gram Pradhan for which belongs to the most influential and affluent community.

Moreover, in the panchayat system, one person (Sarpanch or Gram Pradhan) is generally vested with the majority of leadership role and authority. Being the most visible in the system, s/he becomes the only point-person for the government bureaucracy as well as the villagers. Leadership in the SHG model is more dispersed and collective in nature, and allows for frequent consultations with other members while making decisions. Although the SHGs and their federations select leaders from among their members to represent them at the higher
forums, the local issues are decided with mutual consultations. This leadership pattern largely conforms to the distributed leadership model proposed by Barry (1991) while analysing the leadership issues within self-managed teams. The model is based on ‘the notion that leadership is a collection of roles and behaviours that can be split apart, shared, rotated, and used sequentially or concomitantly’ (Barry 1991: 34), and thus a team can have many leaders at any given point in time discharging various responsibilities simultaneously. The SHG leadership however deviates from Barry’s model in a sense that many decisions, especially those regarding the selection of programme beneficiaries, are taken with wide consultations and an attempt is always made to arrive at a consensus. This aspect of SHG leadership goes beyond the ‘social leadership’ aspect in Barry’s model and results in better transparency, and representation of wider interests in all its activities. Thus the community-based microfinance organisations such as those in AP seem to be better instruments for delivery of social protection and development programmes to their fellow villagers.

5.6 Engagements with government functionaries

The SHG model of microfinance has been developed in such a way that the government authorities attend the meetings of SHGs, VOs, MOs, and DOs at appropriate levels in AP. This allows state bureaucracy to come closer to the villagers at all levels as the frequency of such meetings is far greater than the Gram Sabha meetings in the panchayat system. This mechanism takes away the space available to rent-seeking government functionaries in the panchayat system. It explains why no complaint of rent-seeking by a government functionary was encountered in any of the two sample villages in AP, while such complaints were galore in UP and Gujarat sample villages.

Moreover, local health volunteers, women health workers and attendants are also members of their respective SHGs. They attend VO meetings and discuss the issues relevant to their work. This allows other members to take better advantage of the government schemes such as vaccination programmes, distribution of iron pills and other medicines for diseases like malaria, and improves the chances of their success. Discussions on the performance of various other government programmes such as on pensions, insurance, interest subsidies on credit, subsidised housing, and employment also take place in the regular meetings of SHGs and VOs. Such activities and discourses tend to further improve efficiency of the work of local government functionaries and reduce their scope of seeking rents.
It is thus evident that service delivery of social protection through microfinancial delivery channels improves the impact of social protection programmes while making microfinance more accessible to the poor households. Following sections examine whether it is feasible to employ India Post, a State institution, to effectively engage in such service delivery for the benefit of poor households in rural areas. The analysis is based on the perspectives of the poor households, the local postal personnel in the study areas, and the policymakers on India Post as well as on my experience of working with India Post.

6 Poor households’ perspectives on India Post

About 80% of the respondents in UP and Gujarat sample villages did not report to have had any business transaction with their post-office in the recent past. Many of them are illiterate and cannot write letters. They also do not receive personal letters, as most people in their social network are also not literate. Availability of mobile phone networks in their villages and surrounding areas enables them to orally communicate with their relatives and other social contacts staying away from them. Even when a vast majority of them does not own mobile phones they arrange with their mobile phone-owning neighbours to receive and make calls.

More than 50% of the respondents in the two states were ignorant of the savings and insurance services offered by their post-office. Nobody holds any bank account or a Rural Postal Life Insurance (RPLI) policy at Barakheda or at Kankari Dungari. Andhari post-office has 16 recurring deposit and 20 savings bank accounts, and has issued five RPLI policies. None of the accountholders and policyholders belongs to the BPL households excepting in case of four accounts that belong to the widows receiving financial assistance from the State. Pratappur post-office has 22 savings bank accounts out of which two accountholders belong to the BPL households. In addition, there are 90 recurring deposit accounts in the office and again only two of the accountholders belong to the BPL households. Eleven villagers have taken RPLI policies through Pratappur post-office and none of them belongs to the BPL households. Post-offices in Gujarat sample villages had started opening accounts for NREGP beneficiaries towards the end of my fieldwork but those accounts were treated as zero-balance accounts as per the policy of the India Post under instructions of the Ministry of Finance. As a general practice, the accountholders withdraw the entire amount whenever it is deposited in their accounts after they work under NREG Programme, and do not treat them as savings deposit accounts. No effort was observed having been made on the part of India Post to educate such accountholders to use their accounts for the purpose of building their savings. The post-offices
in UP sample villages had not started opening such accounts to disburse NREGP wages when I finished my fieldwork in UP. Moreover, as mentioned in Chapter 5, the migrating members of respondent households in both states were not found using the remittance services of the post-offices, as they were hesitant to approach the post-offices at their migration destinations. They were also unable to trust the people and the paperwork at an unknown place due to their inability to comprehend the contents of such papers. Only one respondent at Kankari Dungari reported to be using MO service perhaps because he was adequately exposed to the service due to the MOs being sent by his brother serving with the Indian Army.

In AP sample villages, on the other hand, more than 90% respondents reported having transacted business with post-offices in the recent past particularly to receive NREGP wages. They preferred post-offices to the banks due to their being located in closer proximity, the postal personnel belonging to their own larger communities and post-offices being more people-friendly. They however did not have any particular preference for the postal staff to the state government staff and were happy with the involvement of their SHGs in implementation of the social protection programmes.

Local postal administrations were not found taking any measures to promote their banking and remittance products. They were, however, observed to be promoting Rural Postal Life Insurance (RPLI) through sustained publicity campaigns but the campaigns were mainly focussed on relatively wealthy households in the villages and the poor households were not targeted for being covered through RPLI on an assumption that they would not prove to be good and profitable clients for the RPLI. The poor households, on the other hand, did not find RPLI products very attractive due to their rigid requirements of premium payment.

The respondents who were aware of the financial services provided by the post-offices and the existing accountholders in the post-offices were not happy with the financing arrangements for the post-offices and the financial powers of the local postmasters. These factors cause delay in receiving the amounts withdrawn by rural customers from their accounts. Village post-offices take time in allowing withdrawals of relatively large amounts as they have been prescribed low limits on retention of cash in the office, and the postmasters have limited power to sanction the withdrawals even when they have sufficient cash in the office. Line limits on conveyance of cash from the town post-offices were also observed to be very low and it would take many days before the village post-offices could build up sufficient cash
reserves to allow high-value withdrawals. The accountholders thus need to inform the post-office in advance of their requirement to withdraw larger amount of money. In cases of emergency, however, they have to wait for days before they are able to withdraw amounts of more than INR 2,000. The respondents thus strongly recommended to increase the line limits for conveying cash to rural post offices and enhancements of powers of the rural postmasters to retain the cash at the post-offices and sanction the amounts of withdrawal. They however do not have such issues while withdrawing money from their time deposit or recurring deposit accounts as the maturity of such accounts is predetermined and the village postmasters can take action in advance to allow timely withdrawals. This is one reason why there are more accounts for recurring and time deposits than ordinary savings bank accounts in all the sampled village post-offices. Such accounts however limit the liquidity of their deposits drastically as they are not allowed to withdraw before a certain lock-in period. The depositors demanded loan facilities against such deposits to tide over the liquidity issue arising from opening of such accounts. Clearance of cheques was also observed to be taking an inordinately long time as the cheques had to be sent from the village post-offices to the head post-offices through their respective town post-offices for clearance. The cheque amounts are credited to the concerned accounts only after the information comes back to the village post-offices through their respective town post-offices, which normally takes about a week.

Despite such constraints while accessing the financial services from the post-offices (which can be easily and adequately addressed through various policy instruments of India Post, as discussed in the next section), the respondents, especially the economically and socially backward ones, found their neighbourhood post-offices the best suited to meet their financial needs due to the structural advantages they have over other financial institutions. All of them were well aware of the location of the local post-office and knew its staff well. The postal staff, in turn, also recognised each one of them. All the respondents clearly expressed their preference for post-offices to the banks when made aware of savings services available through the post-offices. According to them, bank branches are intimidating and their staff indifferent and unfriendly. They pointed out that there is a significant difference between the attitudes of local postal personnel and those of the rural bank managers. While the local postal personnel are easily accessible to them and are sympathetic to their conditions, the bank

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54 The postmasters in sample villages were allowed to sanction withdrawal of not more than INR 2,000, while the cash retention limits ranged from INR 2,000 to INR 5,000 per office. Cash conveyance limits from their town offices ranged from INR 2,000 to 10,000.
managers in general are reportedly unresponsive and can be rude. Although this subject has not been studied in detail, the existing literature suggests that the attitude of bank staff is generally disdainful and contemptuous towards the rural poor (e.g. Johnson and Rogaly 1997). Jones et al. (2004) in their study of bank managers of rural branches in Madhya Pradesh, India, note that they were largely from non-rural and non-poor background. Their attitudes were found negative and they were not happy with their rural postings. They conclude that attitudes of rural managers of banks constrain the access of the poor to the financial services being offered by the banks (Jones et al. 2004). Jones & Sakyi-Dawson (2002) also point out that character and nature of the formal financial institutions limit the poor borrowers’ access to such institutions. Thorat (2010) indicates that negative mindset of bank managers has contributed to the state of lack of financial inclusion in rural India.

On the other hand, the NGOs working in the study areas were found to be consisting of the people not belonging to the local communities and neighbouring villages. The NGO fieldworkers were also alleged to be exploitative and their managements distant and inaccessible. Substantial anecdotal evidence indicated that the NGO fieldworker at Andhari charged an amount of INR 2,000 whenever an SHG was sanctioned a loan. The SHG members did not have the courage to go to the office of the NGO located at Dahod, the district-headquarter. In contrast, the post-office is located in the village itself, with the provision of senior officials’ visit once in each quarter and a mandatory annual inspection of all its activities.

All the respondents found post-office being run at postmaster’s house more welcoming and manageable than the bank branches, branches of the MFI and the offices of the NGOs. There was a general consensus that post-offices are more suitably placed than any other agency to deliver financial services in the sample villages. Women in particular mentioned that they found it much easier to go to their local post-office than the bank, as, according to them, most of the bank employees are male and they do not want to interact with the men who were unknown to them and were culturally different. A vast majority of them comes from the urban background and speaks different dialects in case of UP as well as Gujarat sample villages. The women respondents did not have such issues while interacting with the local postal personnel, who, despite being male, were from their own local communities and spoke the same dialect. They were found to be more respectful towards women of their own villages than the bank employees who were found to be authoritative and rude, and at best indifferent.
Migrant workers and their families need reliable and trustworthy remittance services to support the family members left behind in their villages. As mentioned earlier, they were not found using post-office remittance services due to their being unaware of such services as also due to lack of trust for the unknown people at their migration destinations and the paperwork. They were willing to use post-office remittance services if the local postal people were involved at the destinations of their migration, and in promoting the products in their villages before the onset of migration season.

The respondents found the idea of post-offices being involved in the identification of recipients and delivering social protection measures more acceptable than the involvement of state government functionaries. State government functionaries in general did not belong to the local communities and were seen to be dependent on the local elite for their informational needs, and colluding with them to deny the poor people their entitled benefits.

People have experience of being cheated and do not want to trust the formal channels of deposit services as they do not understand the paperwork and are not aware of their rights as depositors. The only formal institution they can trust according to them is their village post-office only because they know the local postal personnel and not because they are aware of their rights as post-office customers. They are however not aware of the financial services offered by post offices and the post office is not making efforts to reach out to them. Almost all the respondents wished the post-offices to accept small savings and offer small credits at frequent intervals. They also wanted the post-office to either serve at their doorsteps or allow business transactions after they return from work. Of all the formal financial institutions, the post-office alone has the capability to meet such needs and demands of the poor respondents, because the post-office already has doorstep delivery arrangements for their mail and remittance services. Moreover, as the village post-offices are staffed with the local people they do not have any problem with working in the late evenings if compensated adequately. Thus, it seems that the efforts to meet the financial and associated needs of the rural poor households adequately and at a large scale will not be successful without the substantial involvement of India Post network.
7 Postal personnel’s perspectives

Gramin Dak Sevaks in the sample villages welcomed the idea of more substantial involvement of post-offices in the service delivery of microfinance and social protection as it would increase their working hours and thus their wages. More importantly, they felt that it would make them more relevant to their larger communities.

They are willing to serve in the late evenings after the villagers come back home from work provided they are compensated adequately for their extra efforts. They are also willing to work for longer than prescribed hours for them on extra remuneration. In any case they live in the area served by the post office. Currently, none of them is allowed to work for more than five hours according to the service rules governing the Gramin Dak Sevaks. The delivery staff is willing to deliver financial services at the doorstep of the customers in the villages served by their post office. All of them mentioned that such systems will be beneficial for the people as well as for them.

They are also acutely aware of the importance of various social protection measures for the poor in their villages and feel that post office can play a crucial role in reducing the inefficiency associated with the delivery of social protection programmes in their villages. They also feel that being local and belonging to the local community places them in a better position to make people aware of various government programmes including the literacy programmes. They mentioned that the very fact that they can talk to them in their own lingo and sit with them in their houses makes a difference when it comes to the acceptability of the programme and generation of awareness.

As the postal personnel are available in the village itself, they are willing to devote sufficient time for any work provided they are compensated adequately. According to them, the most important reason for the people not opening savings accounts, despite having substantial amounts of money especially when they return from migration, is their lack of awareness and financial literacy. They need to be approached first and once they are convinced and start receiving benefits of their savings in an account, they will develop trust for the whole mechanism and take further initiatives to maximise their benefits. The local postal personnel were willing to visit all the houses and convince them to desist from unhealthy habits such as drinking and save in the post-offices. They particularly emphasised the need of interacting
with women for this purpose. In Gujarat sample villages, the migrants bring substantial amounts of money back with them when they return from migration but it is spent on drinking and other social ills. According to local postal personnel in Gujarat, if they can be convinced to open their accounts in the post-offices and deposit their money in their accounts immediately after coming to the village, they will be left with small amounts for necessary expenses alone. ‘The most important thing in this regard is to convince the women as in the villages, women only keep money.’ Even if they come back and start drinking immediately, they would not be able to drink liquor worth, say INR 10,000 straightaway. Thus, there is enough scope to convince the women and improve the economic conditions of their households. In this regard, the village postal personnel suggested to create a cadre in the village post-offices, for the purpose of information dissemination and awareness-generation. This cadre may solely consist of the women employees only. They will go from house to house to convince and bring the customers to the post-office. Revenues earned through additional work should be sufficient to pay the remuneration to the employees of this cadre while generating some extra revenues for the Department.

Another way to achieve this may be to employ the NGOs for the purpose. Post-offices may collaborate with them in such a way that they educate the villagers on the financial issues and make them aware of the services available through their local post-offices. The NGO fieldworkers may visit all the village households periodically and convince them to avail the financial services offered by the post-offices. It may be easier for India Post to engage the NGOs for this purpose as creating an extra staff cadre at the post-offices may not meet the approval of the Ministry of Finance due to their insistence on the downsizing of the government establishments. The NGOs may be remunerated on the basis of extra work generated at the post-offices through their efforts. The local postal personnel welcomed this idea as according to them the NGOs are quite used to working with women and convincing them.

As was the case with respondents aware of banking work at the post-offices, the local postal officials also expressed their concern with the quality of their services suffering from inadequate line limits for financing of village post-offices as well as their limited financial powers to sanction withdrawals. These limits were fixed due to security concerns at the villages for the retained cash and deficient transport infrastructure connecting the villages. Situation, according to the rural postal personnel, has improved substantially on both these
counts and the financial limits may be significantly enhanced against each activity without any problem. Such limits have already been successfully revised in AP and some other states for smoothening the wage payments to NREGP workers.

Even if people open accounts and invest in other deposit schemes such as cash certificates, there is a serious problem of keeping and maintaining the paper instruments for a long time as their houses are not sufficiently provided with to withstand the onslaught of elements, and pests and rats. Postal staff suggested to initiate a locker scheme for such people in the post-offices at a nominal charge. Such a scheme may not only be useful for the people to store their valuable documents such as those relating to their lands etc. but also motivate them to open deposit accounts as some of them may not be opening the accounts as it is not possible for them to keep the paper instruments safely.

The local staff at the post offices, serving the Gujarat and UP sample villages, very strongly felt the need providing cheaper loans to the villagers as according to them everybody without any exception needs loans. They also felt a need to restructure and redesign the existing remittance services to suit the needs of the migrant labourers and their families staying back in the villages. Firstly, according to them, the villagers are not aware of this facility through which money can be remitted from their place of migration to their native village and delivered at their doorsteps. Moreover, as most of them are illiterate, they will not be able to fill the required form. The local postal staff suggested to contact them in their temporary shelters at the places of their migration. The staff contacting them should be sensitive to their situation and conditions and should identify themselves properly through government identity cards. There is a severe trust-deficit among the migrants for city-dwellers and unknown people. Moreover, as the migrants find it difficult to trust anybody with their money at the destination of their migration, they would not prefer opening their accounts at the places of their migration even if that arrangement is possible. They are however comfortable in opening their accounts in their own villages, as according to them, they know the postal people and can trust them. One respondent mentioned that if it was possible to open an account in his village or nearby post-office, it would be very good as he could trust people in and around his village, and would be able to access his money when needed. He pointed out that if he could save INR 100 every month it would be very beneficial for him. He also mentioned that if there was an arrangement for the post-office to collect money at his house for depositing in his account, it would be very convenient and beneficial to him and to all the villagers.
The local postal officials felt that there is an acute need of insurance but they felt that the service delivery should be arranged in such a way that the people are able to deposit their insurance premia locally. They should also be able to access loans against their insurance policies at local level. Currently it takes one to two months to sanction loans under RPLI, as it is centralised at the state level. This causes much inconvenience to the people, which may be avoided if the loans are sanctioned and disbursed at local level.

Their supervisors were however apprehensive of their increased work-load such an arrangement may cause. Since they are more exposed to ground realities, they admitted that substantial engagements of post-offices to meet the financial and other needs of rural and semi-urban population may be important for the postal network’s survival in the long run. All of them were however unanimous in their opinion that there should be more delegation of responsibility and authority at lower levels to avoid excessive workloads at their level.

The current workflow structure of post-offices requires the duplication of the work relating to all financial transactions in the village post-offices, at the departmental post-offices in order to achieve better monitoring of and supervision over the work of village post-offices. Thus if the workload in the village post-offices increases, there is a corresponding increase of work at the departmental post-offices. As a departmental post-office has many village post-offices associated with it, the increase in work in all the village post-offices may increase the workload on the departmental post-offices in such a way that it may become totally unmanageable. This phenomenon was observed in Gujarat and AP in case of NREGP wage-disbursal through post-offices. I was informed by the departmental postal personnel in Gujarat that some employees at the departmental post-offices were contemplating voluntary retirements due to abnormal increase in their workload. All of them wanted this arrangement to be restructured to avoid such increase in their workload. They also wanted India Post to explore technology solutions to this issue so that the work performed at the village post-offices can be uploaded on their systems without requiring manual effort. They suggested that there are many hand-held devices available in the market deploying which in the village post-offices may adequately solve such issues.

Opinion was however divided at the level of higher officials and policymakers. More than 60% of the respondents were wary of any increased postal involvement in the rural areas and
considered the rural network as burden to the department. Although none of them wanted to come on record, they advocated for significant cuts in the loss-making rural network in the informal interviews.

7.1 Dynamics of policymaking within India Post

My own experience of working with the department at various positions and the interviews with the higher officials suggest that much of the policy decisions within India Post are taken by the bureaucratic arm of the organisation contrary to the general theme of politics administration dichotomy in the literature on public administration. The dichotomy is premised on the idea that policymaking is the role of the elected politicians while the bureaucrats’ job is to implement the policies, and both the institutions should restrict themselves to their prescribed areas of activity. However as Bohte (2007: 811) points out that ‘a true dichotomy between politics and administration has always been and will most certainly continue to exist only as an idealised fictional construct’, and the bureaucrats are often required to take policy decisions. Bureaucrats have been observed to be having much bigger role in policymaking than the legislature in countries like Germany, Japan, and Russia (Moloney 2007). In India too, the bureaucrats at the topmost levels have been actively involved in policymaking (Maheshwari 2005). N. C. Saxena, a former top Indian bureaucrat, points out that ‘[in India] the civil servants have been given the task of initiating the policy and taking it through, whereas most politicians are totally indifferent to what the policy is’ (discussion quoted in Taylor 2005: 753).

Mosher, a much respected scholar on public administration, argues that a majority of policy decisions are initiated and influenced by the appointed officials and not by the elected politicians. He further argues that such decisions are shaped by ‘their capabilities, their orientations, and their values,... [and] these attributes depend heavily upon their backgrounds, their training and education, and their current association’ (Mosher 1968: 1). Maheshwari (2005) points out that the top bureaucracy in India is mostly drawn from urban middle and upper middle classes and from a certain number of universities, and is influenced by its own value system while designing policies. The feeder cadre for the top bureaucrats in India Post, Indian Postal Service (IPS) officers, is no exception to this observation. The IPS officers are also extensively trained with induction as well as in-service trainings. An analysis of the training modules (India Post undated) reveals that the training contents are largely technical with an overt emphasis on operational issues. The trainings appear to be more suited for India
Post as a business organisation rather than an important public institution. The training does not provide the officers with the information and tools to analyse the larger socio-economic issues facing the poorer segments of the population, and the contribution India Post as a public institution can make towards addressing some of these issues, especially in rural areas where it has an extensive presence.

Predominance of neo-liberal discourse in the government after the 1991 reforms in Indian economy is also a contributory factor for excessive focus on the profit-making and treating India Post more of a business entity rather than a State institution. When organisations such as the World Bank advocate larger role of the post-office and make suggestions for India Post to come out of the red, it invariably involves strengthening India Post’s capabilities to provide infrastructural support to other sectors of the economy (World Bank 2005; 2002). Such prescriptions do not consist of measures aiming to engage it towards the pro-poor development of rural areas and promote the government agenda for the rural areas, for which it is one of the most suitably located organisations among all the State agencies.

The neo-liberal discourses are also accompanied by the efforts to reform public administration across much of the democratic world, collectively referred to as the New Public Management (NPM) and its successor post-NPM. Such reforms seek ‘managerial and economic solutions to complex problems’ within public administration (Jun 2009: 161). However as Denhardt and Denhardt (2003) point out that such solutions are inadequate to address the larger issues involving the people such as public good, social justice and ethical considerations. These solutions are also found wanting while dealing with ‘[s]ocial factors, such as delivery and access hurdles as a result of caste-based discrimination’ in Indian context (Jayaram 2009: 784). Argyriades (2007: 18) is severely critical of ‘one size fits all’ approach of NPM, among other things, and argues that the NPM has failed to adequately deliver on its promise. The NPM however largely informs policymaking within India Post as is evident by the response of India Post to the changing realities around it, described in the preceding chapter.

7.2 Urban bias and the bias towards business and corporate sector

Aforementioned dynamics of policymaking within India Post explains the overt urban bias in decision-making within India Post as discussed in the earlier section. Moreover, the recruitment procedures do not provide an opportunity to the IPS (and Indian Civil Service, in general) aspirants to be tested on subjects such as social work, development studies,
international development, rural management and rural development, study of which could have given them an understanding and the sensitivity to explore and engage their organisation towards serving the poorer population in rural areas. The urban-bias is further explained by the fact that due to their work conditions, the top bureaucrats have very little exposure to rural areas, rural economy, social and business networks, and power structures in rural areas. A sizeable portion of top bureaucrats has never had any opportunity to work beyond metropolitan cities.

Mainstreaming of neo-liberal discourses explains another bias towards the business and corporate sector while developing premium products and value additions on the existing products, ignoring the competitive disadvantage facing the organisation while serving such a set of clients. This is perhaps based on the assumption that the additional revenues to reduce the recurrent losses can be generated through the business community only. This approach tends to ignore the business opportunities requiring the utilisation of about 89% of its network available in rural areas. Such business opportunities may not only generate additional revenues for India Post, but may also help reduce rural-urban and rich-poor divide in Indian society as is testified by various social enterprises across the world. Although it is important to tap the business potential in urban areas where a large part of India Post’s capital investment is concentrated, there needs to be a balance between the urban and rural-centric efforts within its business strategy. Such a need is particularly acute in view of the fact that India Post does not enjoy a competitive advantage in urban sectors, as mentioned in the preceding chapter.

8 India Post and service delivery of microfinance and social protection

8.1 Leveraging rural and semi-urban networks

As discussed above, a majority of new and premium services introduced by India Post in financial as well as non-financial sector can have their clientele in urban areas only. They cannot be introduced in rural areas, as they do not have rural market. The semi-urban and rural networks cannot support new sophisticated products or value additions on existing mail products due to the fact that such needs do not exist in the rural and semi-urban areas. It can however support appropriate products in retail and financial sectors where there are vast amounts of unmet needs and demands. Due to this reason, new products and services that have been relatively successful in generating revenues have been the ones that have leveraged the rural and semi-urban networks. Examples include Rural Postal Life Insurance (RPLI), wage
disbursement to NREGP participants, and dispensing financial support to the poor under various
social protection schemes by opening accounts with the post-office savings bank.

Number of RPLI policies witnessed an increase by more than 100% from 2,666,540 to
6,167,928, in a matter of four years from 2003-04 to 2007-08. During the same period, the
sum assured rose to become more than triple from INR 123,853.4 million to 418,460.9 million
(India Post 2008: 157). Similarly, more than 38.2 million accounts have been opened in
102,739 post-offices for NREGP wage disbursement, and wages amounting to more than INR 57
billion were disbursed through these accounts by 2009 (Annual Report 2010). Most
importantly, such increase in work could be managed without augmenting the already
available staff and it raised the incomes of ‘participating [post] offices by 3.47 % on an
average during 2006-07 and during 2007-08 by 40.45% respectively’ (India Post 2008: 156).

India Post also opened more than 115,000 savings bank accounts in 2005-06 to disburse BPL
widow pension in Gujarat. By December 2009, the post-offices had earned revenue of INR
182.7 million through this activity, in addition to the commission earned on each of 115,000
accounts every year from the Ministry of Finance. Comparison of these figures with the
revenues earned while dispensing various mutual funds through urban post-offices supports
my argument about suitability and feasibility of the postal network for serving poorer
households in rural areas. From January 2006 to March 2008, India Post sold 21 types of
mutual funds from different companies in Gujarat and earned only INR 0.32 million as the
total commission (data collected from Gujarat Circle of India Post). Although there may have
been other factors to explain this, the contrast cannot be fully explained without invoking the
argument that the post-office services will earn more revenues if they focus on serving the
people currently unserved.

Such outcomes naturally follow from the structure of the postal network particularly in rural
areas. The postal personnel for rural post-offices are largely drawn from the local
communities\(^{55}\) and therefore enjoy trust of the people. All the respondents in the three states
mentioned that the post-offices are suitably located to deliver financial services and social
protection measures due to their proximity to the rural people, their personnel being known to
the local people, and having people-friendly office environment. The last point was

\(^{55}\) As per the recruitment rules, the *Gramin Dak Sevaks*, staffing the village post-offices, should belong to one of
the villages within the jurisdiction of their post-offices.
emphasised especially by the poorer respondents who found the bank branches intimidating. Additionally, India Post, being a government department, is in a better position than similarly placed agencies such as banks and NGOs, to coordinate with other government departments offering social protection. As is seen in case of NREGP wage disbursal and RPLI, the post-offices as delivery channel may be cheaper than other delivery channels as they have surplus capacity in rural areas. By involving post-offices, state governments may also be in a position to avoid extra expenditure on creating new financial service channels or on delivery of social protection measures.

Post-offices being thoroughly embedded in the local communities are in possession of crucial knowledge capital on such communities. Their involvement may thus result in better identification and reduce “leakages” in social protection programmes. This was evident in case of delivery of widow pension in Gujarat where a survey by the post-offices in 2003 revealed that out of 130,187 widows drawing the pension, 10,353 did not fulfil the eligibility criteria. ‘Thus, like many government schemes, this scheme also ‘leaked’ and it was possible to locate the points of leakages, leveraging on the information capital available with the post-offices (Priyadarshee 2008: 419)’. Moreover, exclusionary practices as observed in case of SHGs and MFIs in UP and Gujarat may not evolve at the institutional level in this case, as the clients would not be evaluated in terms of their economic conditions and the capacity to repay due to India Post being a government department and thus being obliged to carry out the government mandate.

8.2 India Post and service delivery of microfinance

As is mentioned earlier, products and services introduced while leveraging semi-urban and rural networks generated much more revenue for India Post than those introduced specifically for the urban clientele. Moreover, the products introduced for the comparatively poorer people proved to be relatively more successful, as they are perhaps more loyal clients for the post-offices in the absence of alternatives in most cases. Thus India Post appears to be suitably situated to offer a range of microfinancial services to rural poor in India. India Post already has a rich experience of providing financial services such as small savings, largely targeting the low-income groups. It has also been in the business of delivering remittance and life insurance services.
A report of the steering committee on microfinance and poverty alleviation, constituted by the Planning Commission of India, observes that the existing banking infrastructure in India is not adequate to address rural credit needs. Banks do not have sufficient number of retail outlets to effectively reach the poor. The committee notes that the number of post-offices in India exceeds the number of all the banking outlets and the functional Primary Agricultural Cooperative Societies taken together. It recommends that the ‘post-office network could very well be considered for increasing the outreach of banking services, especially in remote and rural areas…. [post-offices] have a regular and paid staff and with little training and incentives, their services could be utilised very usefully’ (Planning Commission of India 2007: 24).

Post-offices however can do more than just follow the agenda of banks, as they are closer to the people, have a great tradition of having been embedded in the local communities, and an experience of delivering financial services. They can design appropriate financial and non-financial products and deliver them effectively to the underserved and unserved people. A World Bank document (2002a) argues that 137,000 rural branches of the post-offices can be an effective medium to provide a range of financial services, due to the vastness as well as the trustworthiness of the network. Another report by the World Bank (2003) mentions that ‘India Post is already a major player in the banking sector through the Post Office Savings Bank, which handles over 110 million money orders a year, and holds approximately US$44 billion in savings accounts’. The report quotes Mieko Nishimizu, President for the South Asia Region at the World Bank, stating that ‘India Post’s network is one of the best and quickest ways to take technology and its benefits to the rural population in India…. you can think of India Post as an extraordinary human network that facilitates incredible access to virtually all Indians. Imagine the development potential of such a network with such access to people’.

Farrington et al. (2003: 1) analyse the delivery performance of different social security measures to the poor people and observe that ‘over-elaborate targeting militates against local transparency and gives local officials too much discretion, and so is part of the problem’. They suggest ‘that cash transfers paid through certain channels (e.g. the Post Office) for specific purposes such as pensions and allowances are less corruptible than many ‘in kind’ transfers’. As the post-offices are directly run by the central government, such an arrangement allows the central government to continue to play a role ‘in defining and controlling implementation mechanisms, (which) could help to redress some of the tendency for poverty to remain high in the weaker states’ (Farrington et al. 2003: 5). There has been a tendency with some state
governments, particularly those with ‘fiscal crisis and weak infrastructure’, to divert money from the centrally-sponsored schemes to some other purposes. Thus according to Farrington et al. (2003: 1), ‘direct transfers through a central agency, such as the Post Office or certain banks, is particularly beneficial for the weaker states’. Success of such delivery mechanisms for the schemes targeting the poor through post-offices is also attributable to the extraordinary breadth and depth of the outreach of the post-offices.

International experience of engaging the postal networks towards delivering financial services also corroborates the arguments in favour of involving India Post with microfinance delivery. Experiences from Brazil and Netherlands, placed at Appendix 9, reveal that post-offices are well-located to deliver essential financial services to the poor, and in the remote areas.

Post-offices have the experience of delivering savings, insurance (both life and non-life), and remittance services needed more by the poor. These services may be modified and made flexible as per the needs of the poor in their own social and economic contexts. Savings services may be customised to the needs of poor people, such as not prescribing any lower limit for the amounts of deposits, providing deposit-collection services at the doorsteps of the clients and fixing no upper limits on the frequency of such deposits. Post-office working hours in the villages are flexible as the offices are normally attached with the postmasters’ residences. It may even be considered to keep them open in the late evenings and thus avoid impinging on the working hours of the people, which was found to be a major concern of the poor, while accessing such services. Remittance services can be redesigned by following the trends of migration and studying the needs of the migrant labourers and their family-members. Hybrid products combining insurance, savings and remittances may be developed in view of the perceived needs of the people. Post-offices may also consider developing pension products, which are needed by a large section of daily wage labourers without having support of social protection measures.

As post-offices are traditionally embedded within the socio-economic infrastructural framework of their villages, and the postal personnel are drawn from the local communities, they are in a position to tide over information asymmetry in the rural credit and insurance
markets and thus can avoid moral hazard and adverse selection problems\textsuperscript{56} normally prevalent in such markets. The post-offices have their insurance fund at their disposal now (earlier this fund was being used by the Finance Ministry) to advance credits. They can also leverage the excess liquidity with the banks to meet the credit needs of their clients and the banks will be too happy to pass on this liquidity to the post-offices as it will generate more returns on their capital \textsuperscript{57}. Central government may be persuaded to allocate a portion of their rural development budget towards post-office microfinance in view of the poverty reduction potential of the well-designed microfinance programmes.

Post-offices may follow both group and individual lending mechanisms. Post-offices are well suited for the individual lending as they are already serving individuals through their financial products. They can thus target the poor households not acceptable to SHGs as members. They may adopt progressive lending strategy for such borrowers, starting with loans of very small amounts and increasing the amount of loan on each successful repayment. Even when the interest is charged on such loans at the market rate, it will not cover the cost of providing these services due to smaller amounts of loans with shorter durations. The difference between revenues (interest incomes) and the cost of services may be met through the funds available for various rural development schemes.

On the other hand, those leaving their SHGs, because they have got well ahead of their peers, have growing businesses and therefore need bigger amounts of loans, may be asked to furnish collaterals. The terms of loans for such borrowers can be fixed in such a way that this activity generates profits for the post-offices. A clear policy may however be prescribed to keep total amount of such loans below a certain percentage of the overall loan portfolio.

8.3 India Post and service delivery of social protection

Literature on social protection suggests that lack of appropriate design and effective delivery mechanisms may be major roadblocks to the success of the programmes in low-income countries as the institutions responsible for such tasks are weak and lack competence (e.g. Barrientos and Hulme 2008; Barrientos 2007; van Ginneken 1999; Burgess and Stern 1991).

\textsuperscript{56} ‘Moral hazard is the tendency of insurance (and credit) to pervert incentives towards higher productivity. Adverse selection is the tendency of higher risk clients to seek insurance in greater numbers than lower risk clients (Mosley 2001).’ In credit markets adverse selection takes place when safer clients opt out of seeking credit in response to increase in the interest rates due to the presence of risky clients.

\textsuperscript{57} Excess liquidity has been a matter of concern for Indian banks. E.g. see http://businesstoday.intoday.in/index.php?option=com_content&task=view&id=13876&sectionid=4&issueid=75&Itemid=1 [Accessed 1 February 2010]
Availability of an extensive postal network having a vast experience of delivering financial and other services offers an opportunity to the state governments in India to address their lack of implementation capacity while designing and delivering social protection programmes. Experience with the widow pension in Gujarat and NREGP in various states suggests that post-offices can provide effective and cheaper mechanisms to deliver social protection programmes along with the associated financial services according to the needs of the social protection recipients. Empirical observations also suggest that the post-office personnel are in a much better position than their state government counterparts to identify and reach especially the poor households, as the state government officials in charge of administering social protection schemes do not have much contact with the poor and marginalised households. Their contact with the villagers is generally through the elected representatives or local elite. Since such officials do not belong to the local communities in most cases, their information deficit on the local communities results in various errors of exclusion and inclusion. Farrington et al. (2003: 4) also point out that the local state government officials are ‘more prone to distortion for political and personal gain’ than personnel from a central agency such as the post-office.

8.4 India Post and microfinance-linked social protection

Discussion in the preceding sections suggests that the delivery of microfinance may be more inclusive and efficient if it is built upon the delivery of various social protection programmes targeting the poor. Such synergistic delivery also has the potential to improve the impacts of the social protection programmes. In AP, this synergy is being achieved through the State-initiated SHG programme. Involvement of the government agencies in initiating and nurturing the SHG programme made it easier for them to leverage on the government-sponsored social protection programmes. It also facilitated designing and implementation of the government policies to prescribe for such linkages. UP, Gujarat and possibly other states do not have such infrastructure in place, and may not be in a position to develop such a programme at a comparable scale in near future- AP took more than fifteen years in developing and taking the SHG programme to its current form and shape. These states may however achieve similar results if they link the delivery of their social protection programmes with the financial services network of State-owned India Post. Sharma (2009: 79) points out that ‘(t)he existing Indian post-offices are strategically the perfect source available to promote inclusive financial growth especially for poor population’, while Kugemann (2010: 15) argues that ‘India Post is also vital for distributing social benefits to the rural population’. Farrington et al. (2003: 4-5)
recommend using central government-owned postal channel for direct cash transfers under social protection, especially in the weaker states, as ‘a continued role for the centre in defining and controlling implementation mechanisms ... could help to redress some of the tendency for poverty to remain high in the weaker states’.

India Post and the state governments may collaborate to design their respective policies through which they may co-sponsor financial services built around the existing and the future programmes of social protection. The states that have already developed financial delivery infrastructure targeting the poor still need the linkage of this infrastructure with the formal banking networks. They may also benefit by collaborating with India Post and riding on its extensive rural network. In fact, AP was one of the first few states to realise the importance of the reach of India Post and collaborated with it to open the post-office accounts of NREGP participants for disbursing their wages.

The solution may lie in India Post becoming an integral part of the convergence of social protection and delivery of financial services in various states. There can be no uniform strategy at the national level as each state has developed different mechanisms to disburse social protection in response to their circumstances and unique requirements.

9 Conclusion

This chapter identified the underlying structures and mechanisms causing exclusion of poor households from the provisions of microfinance. It further analysed the impact implications of delivering social protection linked with the provisions of microfinance and through microfinance delivery channels. Analysis of empirical data from AP revealed that such linkages have the potential to deepen the impact of social protection through various mechanisms it gives rise to. The analysis further demonstrated that such linkages have the potential to include poor within the provisions of microfinance thus further strengthening the poverty-impacts of the two important poverty-reducing strategies at micro levels.

Poor households’ perspectives on India Post suggest that it is better located than banks and the state government functionaries for service delivery of microfinance and social protection in the rural areas. Investigation into the organisational practices within India Post reveals that much of the policy decisions are taken by the bureaucratic arm of the organisation. Social-class analysis of the top postal bureaucrats, their recruitment procedures and working
conditions largely explain the urban bias and bias towards business and corporate sector in the policymaking within India Post. However such policies seem to be neither in the interest of India Post nor the poor households in rural areas.

I have argued that India Post appears to be suitably located to successfully achieve such linkages, as besides being a government department, it is the largest financial service delivery network in the country. Post-offices are in the closest proximity to the rural population among all the financial delivery channels and have surplus capacity in rural areas. Rural postal network is staffed by the people drawn from the local communities and thus enjoys trust of the local people. It has very valuable information capital on the households that can be leveraged to efficiently identify the prospective recipients of the social protection programmes. This arrangement may also enhance revenues of India Post and reduce its losses while serving the unserved, and thus reducing their economic isolation and improving their social and economic conditions.

It may however require a policy-rethink on the part of India Post. It may need to reorient its largely pro-urban and pro-corporate sector policies to strengthen its focus on the business opportunities in the rural and semi-urban areas.

Next chapter summarises the key findings and main arguments of the thesis. It puts forth recommendations for Indian microfinance industry, India Post, and national and state governments in India on the basis of this research, and outlines areas of further research.
Chapter 7

Analysis of key findings, policy implications, recommendations, and concluding remarks

1 Introduction

This chapter summarises the analysis of key research findings and the main arguments of the thesis. It fleshes out policy implications of such findings and arguments, and accordingly makes policy recommendations on the basis of this research. The chapter concludes with outlining areas of further research.

2 Analysis of key findings

Poverty is an extremely significant issue for Indian society with estimates based on varied methodologies suggesting that up to 75% of the Indian population may be poor and deprived of basic necessities to sustain a normally healthy life. Microfinance and social protection are two important micro-level strategies to reduce poverty. The literature on the subject reveals that microfinance largely excludes the poor households in India. This research set out to explore the causes of microfinance not reaching the poor and drew its empirical data from three states. This afforded me an opportunity to identify the structures and mechanisms excluding the poor from microfinance provisions in UP and Gujarat, and contrast it with the situation in AP, where the poor are largely included, to further refine and enrich our understanding.

I also explored whether it is feasible to link the two micro-level poverty-reducing strategies of microfinance and social protection and whether such linkage would improve their poverty impacts. It was found that social protection programmes have a favourable political environment in India and are being increasingly resorted to as a means to fight poverty for deprived and vulnerable sections of the society. They are therefore increasingly becoming an important part of the financial environment of the poor, generating their own needs for financial services. It was observed that meeting such needs through microfinance mechanisms may support and expedite the inclusion of the poor within microfinance provisions in addition to deepening the impact of social protection programmes. Additionally, delivering social protection by leveraging the social capital generated as a result of microfinance-provisioning
was observed to be avoiding incidence of elite capture and triggering off other mechanisms that made such delivery efficient.

The research finally explored whether a State institution, India Post, is suitably located to achieve such linkages and deliver microfinance services to the poor and excluded population in India. Following sections summarise the main findings and the principal arguments of the research.

3 Financial needs of the poor households

Empirical findings suggest that the livelihood patterns are fast changing for poor households in UP villages with the options of sharecropping and rearing of livestock becoming less available and less appealing to the poor villagers. They are responding by engaging more in wage labour inside and around their villages as well as by migrating to faraway places for long durations. Work in their villages is available only during the sowing, transplanting and harvesting seasons, or when there is some construction activity. Although most poor households in Gujarat villages have some landholding, agriculture does not meet all their requirements and they need to migrate to bigger towns, and other rural areas facing shortage of agricultural labour. AP villages are witnessing a distinct shift towards non-farm livelihoods by the poor households due to increased opportunities available to them.

Poor need financial resources to meet their day-to-day consumption needs, investment needs, and the expenses on their lifecycle events and healthcare. Healthcare in particular takes away a major chunk of their incomes on an average, as they generally avoid going to public medical facilities, and the tradition of home remedies is fast vanishing from their lives. Their incomes are highly uncertain and thus they need to save whatever surplus they generate when they get some work and derive income from it. Thus they need reliable savings mechanisms allowing them to save small amounts at frequent intervals with procedures that do not impinge on their working hours. They also need to borrow small sums for short durations to smoothen their consumption, which, if available, appears to be having the strongest impact on their well-being in general. Additionally, they need larger sums at reasonable rates for longer periods to meet their lifestyle and medical expenses.

There is an acute need for insurance as most of the poor people in the sample villages are at a high risk in their occupational as well as their routine life spaces. A vast majority of informal
sector employments they engage in is hazardous, and is without adequate provisions for safety measures. Moreover, they reside in poorly constructed houses in geographical settings that are more prone to disasters. Their residential areas have more incidences of infectious diseases while they have an extremely limited access to proper healthcare. In addition, their staple food falls short of their nutritional requirements. The situation is further compounded by their very little exposure to formal education. Poor households of the sample villages will therefore be considerably better off with suitable and adequate provisions of life, accident, crop and property insurance. As the villagers migrate for long durations leaving some members of their families behind, they need reliable and reasonably-priced remittance services.

4 Existing arrangements for meeting the financial needs of the poor in UP and Gujarat

Suitable savings devices are not available to the villagers in UP and Gujarat. Even when they have bank accounts they do not use them to save their money as it entails loss of their work-hours. They however always welcome people who deliver the savings products at their doorsteps. This explains the success of financial service delivery mechanisms, including LIC, using local community-members as delivery agents. They however run the risk of being cheated by such agents. Even in case of LIC they lose out their money as they do not have means to follow rigid premium payment schedules of LIC. In other cases they either stash the cash at their homes or keep it with their employers at their work-places, both arrangements having their inherent risks.

Most of their credit needs are met through informal mechanisms either from their landowners or moneylenders. Such credit is extremely costly and is part of the reason for many households not being able to come out of vicious circles of poverty. There is neither an awareness of the availability of insurance mechanisms, nor such mechanisms acknowledge their specific insurance needs and their financial conditions including irregular cash inflows they frequently encounter. None of the respondent households was therefore found covered by any insurance mechanism in respect of their lives, properties or livestock, excepting in case of a few households having LIC life insurance policies as part of their savings strategy for want of better savings mechanisms. They were also not found using remittance service of the post-offices as they do not trust anybody at their migration destinations with their money.
Microfinance programmes, evolved in response to the unmet financial needs of poor households, were also not found reaching such households substantially and not more than 10% of the BPL households were found covered by microfinance provisions in UP and Gujarat sample villages.

5 Why poor are excluded from microfinance in UP and Gujarat and not in AP

There are several structural causes for the microfinance programme not reaching the poor households in the sample villages of UP and Gujarat. Credit products of the MFI operational in the study area were perceived by the poor households as extremely rigid due to their unflinching insistence on weekly payments. These products appear to be better suited for the urban clients earning assured incomes on daily or at the most weekly basis. In the rural setting they seem to be suitable only for the businesses like shops that yield regular returns, and not for a vast majority of small and marginal farmers and landless labourers.

A majority of SHGs was found to be supply-driven and organised under some government or donor programmes with limited durations. Such SHGs could not sustain themselves after the external support was withdrawn. The NGOs promoting the SHGs could not develop their capabilities or arrange for alternative support system despite the fact that they were aware of short durations of the programmes. Some SHGs consisted of migrant women as members to complete the numbers and meet the targets. As the SHG was not an appropriate method to deliver microfinance to them, such SHGs were bound to collapse immediately after the NGO withdrew its support. Disintegration of SHGs damaged the bonhomie and thus social capital already existing in the villages, and proved to be counterproductive in addition to wastage of the programme resources.

All the SHGs in UP and Gujarat sample villages were found to be heterogeneous and reflective of the power structures prevalent in the villages. Rather than empowering the weak, these SHGs were found to be reproducing and strengthening the existing power structures. There was a strong evidence of the poorer, less aware, less assertive and weaker members being discriminated against by the stronger members, who, coming from more influential social and economic backgrounds got to occupy the leadership positions. Group dynamics further drove the poor and destitute out of the SHGs as they were perceived as burdensome and risky.
SHG methodology depends heavily on generation and nurturing of trust capital within the SHGs in order for them to be able to play a significant role in their members’ lives. Heterogeneity of SHGs causes the poorer members to distrust their leadership which is further exacerbated by their largely being illiterate. As the financial activities within SHGs are entirely based on written words and numbers, such members already distrusting their leaders feel being manipulated by them. Regular SHG meetings are also not being developed as instruments of empowering the weaker members as it may not be in the interest of the stronger members occupying leadership positions.

Accounting procedures within the SHGs require some level of understanding of accounting and arithmetic, which is not always available with the SHG members. Such SHGs cannot sustain themselves without continuous external support. Federating them may be one viable solution to this problem as has been shown by the SHG model prevalent in AP sample villages. The SHG model in AP was also observed to be successful in avoiding the other structural causes of microfinance programmes excluding the poor households in UP and Gujarat. The SHGs were not organised as part of any government programme with limited duration. They were organised with a long-term purpose of developing them to become an important community institution for not only delivering microfinance but also becoming a platform to converge government social protection programmes with community initiatives.

The SHGs in AP consist of members from more homogeneous social and economic backgrounds and thus the poor members were not found being discriminated against. Moreover, the SHG programme in AP is intrinsically linked with the delivery of social protection programmes that makes microfinance provisions through the SHGs more attractive and useful to the poor households. On the other hand, the assured regular financial gains through the social protection programmes make the poor being perceived less risky by the other members. Due to such reasons the SHG programme in AP is almost totally inclusive.

6 Social protection and financial needs

Social protection measures were found to be increasingly important part of the financial environment of the poor households. On one hand, pension and NREG programmes improve the cash inflow for them; while on the other hand, programmes such as subsidised housing and latrines improve their asset base and the quality of their lives. Such social protection programmes however generate their own financial needs. Subsidised delivery of food through
the PDS generates the need for small but frequent credit, while the programmes of subsidised houses and latrines require much larger amounts of credit. Pension schemes and NREGP generate the needs for suitable savings mechanisms. SGSY by its design requires formation of SHGs while group insurance programmes are themselves part of social protection measures.

7 Social protection-linked service delivery of microfinance

Analysis of the data from AP sample villages reveals that poor households find microfinancial services that meet the financial needs generated by social protection provisions more relevant and useful. Such measures therefore substantially enhance participation of the poor in microfinance. They are also not considered burdensome and risky by the other SHG members as they are assured of getting the monetary and other support at regular basis through the social protection programmes. The analysis therefore suggests that linkages of microfinance services with social protection may improve outreach of microfinance among poor households as it may address both demand and supply-side issues constraining such outreach. There may be more demand for such services among the poor households than the traditional microfinance services. Such linkages may also make poor households more attractive customers for the microfinance providers.

8 Impact implications of microfinance-social protection linkages

Availability of financial services that substantially meet the needs generated by the social protection measures were found contributing towards deepening of the impact of such measures. Experience in UP and Gujarat suggests that absence of mechanisms to meet the financial needs generated by social protection programmes may substantially reduce the benefits of such programmes and deny poor households their entitlement. The AP experience further demonstrates that delivering social protection programmes through microfinance channels may reduce inclusion and exclusion errors while identifying the beneficiaries under such programmes. It may also reduce incidence of elite capture, and corruption and rent-seeking on the part of elected representatives and local bureaucracy. It may facilitate better participation of poor households and freer flow of information. Additionally, such linkages of social protection with microfinance may make microfinance programmes more inclusive of the poor households thus enhancing the impact of microfinance for such households.
9 India Post and service delivery of microfinance linked with social protection

All the respondents in the three states mentioned that the post-offices are suitably located to deliver a range of financial services and social protection measures due to their easier approachability, their personnel being known to the local people, and having people-friendly office environment. The last point was emphasised especially by the poorer respondents who found the bank branches intimidating. Being a government department and the largest financial delivery network in the country, India Post is in a better position than similarly placed agencies such as banks and NGOs, to coordinate with other government departments offering social protection and to achieve and deliver linkages of microfinance with the provisions of social protection. Post-offices are in the closest proximity to the rural population among all the financial delivery mechanisms and have surplus capacities in rural areas. Rural postal network is staffed by the people drawn from the local communities and thus enjoys the trust of local people. Moreover, it has a valuable information-capital on the households that can be leveraged to efficiently identify the prospective recipients of the social protection programmes.

Experience with the widow pension in Gujarat, and NREGP in various states, suggests that post-offices can provide effective and cheaper mechanisms to deliver social protection programmes along with the associated financial services according to the needs of the social protection recipients. Empirical observations also suggest that the post-office personnel are in a much better position than their state government counterparts to identify and reach especially the poor households, as the state government officials in charge of administering social protection schemes do not have much contact with the poor and marginalised households. Their contact with the villagers is generally through the elected representatives or local elite. Since they do not belong to the local communities in most cases, their information deficit on the local communities results in various errors of exclusion and inclusion.

Design of social protection programmes takes into account the existing delivery channels and hence many programmes may not be introduced for want of suitable delivery channels even when there is a felt need. Engaging post-offices in delivering social protection may facilitate addressing some such needs and thus open up new avenues of social protection.
Such engagements may also enhance revenues of India Post without substantially increasing its expenditure and may thus improve its financial position. This will however require a policy-rethink on the part of India Post. It may need to reorient its largely pro-urban and pro-corporate sector policies to strengthen its focus on the business opportunities in the rural and semi-urban areas, and serve the currently-underserved and unserved to reduce their economic isolation and improve their social and economic conditions.

10 General recommendations for Indian microfinance industry

The NGOs and MFIs need to improve their governance systems and transparency to be able to better serve the largely uneducated and also illiterate people. The NGOs implementing government projects seem to have been infected by the bug of target-oriented functioning, without making efforts for sustainability of their activities. The supply-driven target-oriented approach can only prove to be counterproductive and harm the people more than it can ever aspire to help. It is important for the NGOs and other microfinance organisations, delivering microfinance as part of the government and other donor-sponsored projects, to have a well-laid out strategy in place to sustain their efforts even after such projects are over. They may also negotiate with their sponsors to incorporate the mechanisms to build capacities of the local communities within such projects so that the communities are able to keep managing their microfinance initiatives even after the project support has been withdrawn.

It seems that the SHGs need to be part of a larger eco-system to ensure consistent availability of support and motivation to sustain their existence. Such eco-systems may be created by federating the SHGs, or provided by the financial organisations where the SHGs become their integral part. In the latter case, it is in the business interest of the organisation to keep developing the capabilities of SHGs and supporting them by making all necessary and feasible investments.

It is also of crucial importance that the SHGs are organised so as to consist of members having largely homogeneous social and economic backgrounds. It is equally important to develop their regular meetings as empowerment tools, and as mechanisms to expand the SHG-members’ participation within their wider communities. Regular meetings are costly in terms of the opportunity costs of the time spent in the meetings. Unless the members feel sufficiently compensated, they would not be motivated to engage themselves with such meetings, which constitute a fundamental institutional aspect of SHGs.
The SHG model in spite of its remarkable success remains limited to a section of not very poor clients because of inflexibility of its products and for want of voluntary saving products. Its appeal to the poor is very limited. Thus there is a strong need for designing better financial solutions for the poor and link them with other interventions aiming for the upliftment of this section of the population. It is particularly important to link microfinance initiatives with the social protection programmes impacting the financial environment of the poor.

The MFIs need to reengineer their existing products as per the needs of local economy and the financial needs of the people if they want to remain relevant for a larger population, especially in the rural areas. Their products being offered in Dahod district currently are better suited for the urban clients earning assured incomes on daily basis.

11 Policy recommendations for India Post

Post-offices constitute an important network capital belonging to the society at large. It has taken more than a century for this network to reach its position of today. Its relevance seems to have reduced in the areas it has traditionally engaged in, but such a network in a low-income country is of crucial importance for want of any similar alternative delivery mechanism, particularly when the quality of service delivery determines the impact of the social protection and other welfare programmes to a great extent. India Post may therefore need to reorient its priorities to allow various State and non-State agencies to use its network capital for delivering their programmes especially in rural areas and to poorer clients.

Policymakers within India Post need to acknowledge that the products having its clientele largely in urban areas and within the corporate sector may not be very suitable to an organisation having a large part of its network in rural areas. They may also need to recognise that India Post is a public organisation with a responsibility to provide public good, and not a business organisation to make profits alone. Even otherwise, improved engagements with the rural people may make better business sense as is argued in this thesis.

So far, post-offices have been largely catering to middle and low income households but their potential to reach even the poorest and destitute can be realised by making policy-level changes. Post-offices have the experience in delivering savings, insurance (both life and non-life), and remittance services. These services may be modified and made flexible as per the
needs of the poor in their own social and economic contexts. Savings services may be customised to the needs of poor people, such as not prescribing any lower limit for the amounts of deposits, providing the deposit-collection services at the doorsteps of the clients and fixing no upper limits on the frequency of such deposits. Post-office working hours in the villages are flexible as the offices are normally attached with the postmasters’ residences. It may even be considered to keep them open in late evenings and thus avoid impinging on the working hours of the people, which was found to be a major concern of the poor, while accessing such services. Remittance services can be redesigned by following the trends of migration and studying the needs of the migrant labourers and their family members. Hybrid products combining insurance, savings and remittances may be developed in view of the perceived needs of the people. Post-offices may also consider developing pension products, which are needed by a large section of daily wage labourers without having support of social protection measures.

As post-offices are traditionally embedded within the social and economic infrastructural framework of their villages, and the postal personnel are drawn from the local communities, they are in a position to tide over the information asymmetry in the rural credit and insurance markets. Post-offices have their insurance fund at their disposal now (earlier this fund was being used by the Finance Ministry) to advance credits. They can also leverage the excess liquidity with the banks to meet the credit needs of their clients and the banks will be eager to pass on this liquidity to the post-offices as it will generate more returns on their capital. Central government may also be persuaded to allocate a portion of their rural development budget towards post-office microfinance in view of the poverty reduction potential of well-designed microfinance programmes. There may be little political or administrative resistance to this idea due to the central government’s increased focus on financial inclusion.

Post-offices may follow both group and individual lending mechanisms. As mentioned earlier, SHGs need to be part of a larger eco-system to ensure consistent availability of support and motivation to sustain their existence. Post-offices may provide such an eco-system to the SHGs where they do not have other support systems.

India Post may collaborate with the state governments to design their respective policies through which they may co-sponsor financial services built around the existing and the future programmes of social protection.
Role of technology appropriate to rural areas is also crucially important while extending the financial and other services to such areas. Although beyond the scope of this research, it was evident that sufficient effort does not seem to have been made on the part of India Post to identify and incorporate the technology suitable to rural areas, while it is computerising its urban network on a large scale. It may be however even more important to introduce modern technology in rural areas to overcome the constraints of distances and sparse population. Focussing on the rural areas may require India Post to review the technological tools it is currently employing and promoting. Internet-based technology may not be very effective and suitable in rural areas because of its capital intensiveness, as also because of the non-reliability of electricity supply in the rural and semi-urban areas. Mobile phone technology in such a situation may prove to be a better alternative for the rural areas than internet-based technology. Its pervasiveness even in rural areas can be harnessed without requiring much capital investments. It may be developed to be the backbone of all the financial services offered by India Post in rural and semi-urban areas where it has not been able to computerise its offices.

12 Policy recommendations for the government of India and the state governments

Claims of success by various microfinance programmes have encouraged the national and state governments in India to incorporate provisioning of microfinance within their poverty-reduction programmes. A majority of such programmes involve organising SHGs by enrolling NGOs. Government agencies however need to be more sensitised towards specific needs and constraints being faced by the people who they set out to serve. The supply-driven target-oriented approach to microfinance may not be feasible in all situations. It may turn out to be counterproductive and damage the social capital of the recipient-communities as was observed in the Gujarat and UP sample villages.

In cases, where it is found beneficial and feasible to organise SHGs within poverty-reduction programmes, it is important that a mechanism is in place to ensure that adequate support is available to SHGs after their parent programmes are over. SHGs need to be viewed as long-term community institutions facilitating overall socio-economic development of their member-communities.

Channelling of interest-subsidy through SHGs, as is being practised in AP, is a marked improvement over disbursement of such subsidies within the IRDP because of inclusive
character of SHGs in AP. It addresses the major criticism of IRDP regarding subsidised loans being appropriated by the relatively affluent and politically-influential people. Benefits of subsidies in SHG model are spread over a much larger population. However, there is still a concern of larger benefits accruing to the better off, as people asking for bigger loans get larger subsidies. Poor may not ask for bigger loans as their loan absorption capacity is limited. A mechanism may therefore be devised prescribing a subsidy-cap so that the people accessing bigger loans do not get benefits beyond a certain limit.

Instances of inclusion errors were observed within the delivery of various social protection programmes in AP sample villages. It was however reported that at the time of inclusion the beneficiaries fulfilled eligibility criteria in all such cases. The same was also corroborated while recording their life stories. However, no mechanism seems to have been designed to address such inclusion errors in AP, which is needed in view of an increasingly large number of upwardly mobile households due to their SHGs, social protection programmes and other reasons.

Government of India may consider engaging post-offices to deliver relevant aspects of microfinance to the poor treating it as public good. This activity may not be self-sustainable due to small but frequent transactions. Revenue-deficit may be covered through the delivery-budgets of various social protection provisions and other development programmes. A system may be developed where India Post becomes an integral part of the convergence of social protection and delivery of financial services in various states. There can be, however, no uniform strategy at the national level as each state has developed different mechanisms to disburse social protection in response to their circumstances and unique requirements.

13 Areas for further research
This research contributes in addressing the knowledge-gaps, concerning the assessments of the financial needs of poor households, and the structures and mechanisms causing the exclusion of the poor from microfinance service delivery, within microfinance and poverty literature in India. It further contributes to generation of new knowledge in terms of demonstrating the importance of synergistic service delivery of microfinance and social protection by leveraging on the strengths of each other for enhancing their combined poverty-reducing impacts in India. It also explore the role of a State agency, India Post, towards service delivery of microfinance and seeks to address the knowledge gap within the literature
on microfinance, much of which is focussed on NGOs, private sector MFIs, and donor agencies. The research however throws out some more areas where further detailed and systematic research needs to be carried out. Following paragraphs detail such areas for further research.

It is important to further research, and design more suitable methodology for delivering financial services to the poor in view of their distinct financial needs as discussed in the preceding sections. Microfinance constituted a major leap in this direction but there is a need to go beyond the prevalent microfinancial practices to address the financial needs of the poor more adequately.

It may also be worthwhile to more deeply and comprehensively evaluate the impact of SHG-based microfinance when it is delivered as part of the limited-currency government rural development or donor-driven programmes, and examine if it is the most efficient usage of the programme funds. Such evaluation may help in better utilisation of the funds of such programmes.

As is pointed out by a large body of literature, financial services are very important and extremely useful for the poor but their impact may not be very significant if not provided in conjunction with other non-financial services. Such non-financial services may help them solve their other problems and enable them to use the financial services more effectively. Due to locational advantages and being embedded in the local communities, post-offices may play an important role towards providing such services in collaboration with local community organisations. Systematic research may however be needed to explore feasibility of such proposition.

Engaging post-offices in delivering social protection may also open up new avenues of social protection. Design of such programmes takes into account the existing delivery channels and hence many programmes may not be introduced for want of suitable delivery channels even when there is a felt need. Further research efforts may be required to assess such needs, and design programmes to address them in view of the opportunities created by such engagement of post-offices.
Scope and effectiveness of the aforesaid engagements of post-offices may be considerably enhanced by suitably incorporating modern technology particularly within its semi-urban and rural networks. It was beyond the scope of this research to investigate the issue in detail but preliminary investigations suggest that mobile phone technology may be more appropriate in the given circumstances. More thorough research may however be carried out before embarking upon applying such technology to India Post network.

Data from the three states reveal that a major part of the incomes of the poor is spent towards their healthcare, despite availability of public health infrastructure, as they do not use such infrastructure substantially for the reasons described elsewhere in this thesis. On the other hand, this infrastructure is extensively used by the relatively influential people and local elite, which reduces their medical bills significantly. This phenomenon of poor running much higher medical bills than relatively affluent in the same geographical spaces further exacerbates the prevalent inequality among different economic classes and misdirects the State expenditure on health. Considerable research efforts may be needed to deeply investigate into such phenomena and suggest measures to address these.
## Appendix 1

### Indicators used to profile the poor households selected for the case studies

<table>
<thead>
<tr>
<th>Human Resources</th>
<th>Dwelling</th>
<th>Food security and vulnerability</th>
<th>Assets</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Age and sex of adult household members</td>
<td>• Ownership status</td>
<td>• Number of meals served in the last two days</td>
<td>• Area and value of land owned</td>
<td>• Urban/rural indicator</td>
</tr>
<tr>
<td>• Level of education of adult household members</td>
<td>• Number of rooms</td>
<td>• Serving frequency (weekly) of three luxury foods</td>
<td>• Number and value of selected livestock resources</td>
<td>• Non-client’s assessment of poverty outreach of MFI</td>
</tr>
<tr>
<td>• Occupation of adult of members of household</td>
<td>• Type of roofing material</td>
<td>• Serving frequency (weekly) of one inferior food</td>
<td>• Ownership and value of transportation-related assets</td>
<td></td>
</tr>
<tr>
<td>• Number of children below 15 years of age in the household</td>
<td>• Type of exterior walls</td>
<td>• Hunger episodes in last one month</td>
<td>• Ownership and value of electric appliances</td>
<td></td>
</tr>
<tr>
<td>• Annual Clothing/foot-wear expenditure for all household members</td>
<td>• Type of flooring</td>
<td>• Hunger episodes in last 12 months</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Observed structural condition of dwelling</td>
<td>• Frequency of purchase of staple goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Type of electric connection</td>
<td>• Size of stock of local staple in dwelling</td>
<td></td>
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<tr>
<td></td>
<td>• Type of cooking fuel used</td>
<td>• Marginal propensity to consume out of additional income</td>
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<tr>
<td></td>
<td>• Source of drinking water</td>
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<tr>
<td></td>
<td>• Type of latrine</td>
<td></td>
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</tr>
</tbody>
</table>

Appendix 2

Case studies

Appendix 2A: Household of Narayanidevi Kamal at Pratappur
Appendix 2B: Household of Meena Devi at Barakheda
Appendix 2C: Household of Champaben Palas at Andhari
Appendix 2D: Household of Mathiben Garwal at Kankari Dungari
Appendix 2E: Household of Judalee at Kaikondaigudam
Appendix 2F: Household of Nagmani at Bachalakoyagudam
Appendix 2A

Household of Narayanidevi Kamal at Pratappur

Narayanidevi Kamal, 42, and her husband, Kisanlal, 45, have two daughters and two sons. The elder daughter is married and lives with her husband in another village. Narayani lives with her husband, one daughter, 12 and two sons, 13 and 15 years. They belong to Kamal, one of the Scheduled Castes.

Human capital
Narayani and her husband are illiterate. The elder son left his studies after studying till class five, while the younger one studied till class eight. Narayani says that poor people cannot educate their children, as it is a choice between hunger and education. The younger daughter is however studying in class seven. Her elder married daughter is illiterate, so is her husband. Her next generation is thus also deprived of even basic education and therefore their capability to perform unskilled, physical work will also remain limited.

Dwelling and assets
Narayani’s family lives in a mud house. The household has two wooden cots and a few aluminium utensils. It does not have any other consumer items, not even a bicycle. Narayani cooks on a clay chulha (stove) with firewood collected by the children during the day. The house has no toilet or electricity connection.

Kisanlal has one brother, and between the two, they have one bigha of land. It is wasteland and nothing grows there. His brother has a pair of bullocks which he also uses to plough the land taken on sharecropping. The household is raising two goats on half-share basis58.

Livelihood strategies
They have been traditionally sharecropping on the land of others and that is why his brother keeps a pair of bullocks. Narayani mentions that nowadays, there is no land available in the village on half share; it is only on one-third and one-fourth share. They are also required to share on the investment, so not much is left with the sharecroppers. ‘We have to do all the hard work without getting much in return. But we are helpless before our stomachs.’ They have been sharecropping two bighas of land on one-third share for last two years, which supports their family for two to three months in terms of their food requirements. They want to have more land on sharecropping as both of them along with their sons can manage up to ten bighas of land, but no landowner is willing to share land on one-third share with them. At the time of my last interview, Kisanlal was in the process of negotiation for sharecropping one more bigha of land on one-fourth share.

Kisanlal and the sons seek wage labour in and around their village to meet the household needs. They cannot keep away from the village for the whole day, as the agricultural fields need their continued presence in the village. They get work when there is a construction activity or some landowner needs extra hands on his fields. Narayani also wants to work as a casual labourer, but as there is so little work for men, how and where would women get the work, wonders her elder son. She, however, gets work during the season of sowing, transplanting and harvesting the crops, and along with her sons and the husband she earns food grains that meet the food grain requirements of household for two to three months.

The situation had however become worse towards the end of my stay in the village, as Kisanlal fell down from a tree he had climbed up to chop tender branches as fodder for the goats. He probably broke his ribs and was in immense pain. He was not in a position to work for more than a month at the time of my last visit to the household. He had got absolutely no treatment for want of money.

Food security and vulnerability
The livelihood strategies adopted by the household imply that there would be times of food deficiency, and that is what it faces for about two to three months ever year at different points in time despite the PDS support. On certain occasions, they get to eat only once in a day. Chapattis are normally eaten with potatoes as other vegetables are very rarely purchased and lentils are luxury for them. Potatoes are also not available for three to four months in a year and then it is salt that is consumed with chapattis and rice. At the time of my last visit (25 March 2009), the household had wheat flour to meet the requirements of only two days, and had no rice, potatoes

58 There is system of ‘share-raising’ of livestock, where a household adopts an animal immediately after it stops breastfeeding on its mother at the place of its owner. It is either sold when it matures and the sale proceeds are shared equally between the owner and the raiser, or if one of the parties wants to keep it, the other party is paid the half of market share.
or vegetables. With no work available and no incomes forthcoming, Kisanlal had gone to his sister’s place to borrow some money for food and explore if she can get him the treatment. Narayani was not expecting him to be back for next four-five days and did not know where she would be getting the food for her household from. On probing a little deeper, she said that she would first try to borrow from the neighbours but was not very hopeful as they are also on the same boat. She was also planning to request for some food grains from her landowners on loan. She always attempts to repay such borrowings as fast as possible, especially with the PDS subsidised food, and the cycle goes on. It gets broken only when her husband and sons get employment for some prolonged periods. On being asked what she would do if she does not get food from her neighbours etc., she says that it can only be answered by God. He will make some arrangement.

Other consumptions and expenditures
It is very difficult to spare money for the needs other than food and serious medical emergencies. Her daughter and the younger son have two sets of clothes that were made using their scholarship amounts. She has only one saree which was given to her by her married daughter as it was old and useless for the daughter.

Significant events and income shocks
The household did not have any money and hence married off their elder daughter without any celebration and dowry, whatsoever. Because of this she had to be married to a person, who is illiterate, does not have any assets, and seeks work of casual nature requiring no skill.

Financial needs
As the household does not have money or access to suitable credit services for agricultural investments, Kisanlal borrows it from his landowner and repays one and a half times of it at the time of harvesting. Thus, effectively they pay an interest at the rate of 150% per annum on such borrowings.

Narayani did not have money for Kisanlal’s treatment after he got injured. She did not borrow any amount as she was not sure if she would ever be able to repay it with an interest rate of more than 120% per annum. After he fell down, he did not eat anything for first fifteen days. He started eating a bit afterwards that but cannot sit at all. He could not be taken to the government hospital that is located about six kilometres away, as the money could not be arranged for the transport. Even otherwise they were not very keen on the government hospital as she says they only prescribe some medicinal tablets to be purchased from the market. They also call the patients to the hospital very frequently, thus further increasing the burden of expenses on the patients’ household.

The accident has rendered him unable to perform any kind of work for more than one month. It is quite likely that he may be permanently disabled and the household loses out on one working member. Thus the eventual cost of unavailability of credit may be enormous not only in economic terms but also in terms of Kisanlal’s wellbeing. The household therefore desperately needs an access to reasonably priced credit to sustain itself. It also needs insurance cover in terms of health, life and accidents, as that would have ensured Kisanlal getting good and timely treatment. The household also requires a savings mechanism that is not only reliable but also has provisions for smaller but frequent transactions so that a part of Kisanlal’s wages can be saved whenever he gets work and receives wages.

Access to financial services and microfinance
She has not been a member of any SHG, as there is no SHG in her locality and no woman from her locality has ever been an SHG member. She feels intimidated with the thought of attending an SHG meeting with so many ‘big’ people. She is also not sure if she would always have the mandatory amount to save on the day of the meeting every month.

Social protection programmes available to the household
Narayani has an Antyodaya card that entitles her 15 kg of wheat (@ INR 2 per kg), 20 kg of rice (@ INR 3 per kg), 2 kg of sugar (@INR 14 a kg), and kerosene (@ INR 11.50 per litre) per month. Although she economises on kerosene and very seldom buys sugar, she tries to buy entire amount of wheat and rice every month that meets her fifteen days requirement at least. If she does not have money, she tries to borrow it from the neighbours. Though sometimes she does not have money to buy her entire quota and buys whatever she can.

Ninety-one cards for subsidised ration were issued in her village, Pratappur, consisting of 62 BPL cards and 29 Antyodaya cards. Village Development Officer (VDO), a local level government official, visited the village and

59 The interest rates are always higher in cases of such emergencies as the creditors know that the borrowers are too desperate to be able to bargain
announced that he had been instructed to renew the cards and convert nine BPL cards into Antyodaya cards. Interestingly, this was not based on any assessment of the people’s conditions in the village. Amarsingh, a panchayat member, enquired from him about the criteria to be followed for the purpose and was informed that the cards to be downgraded should belong to either very poor or widow-headed households. When he asked the VDO to hold a general meeting of the villagers and decide the issue in the meeting, the VDO told him that his higher ups had instructed him to only consult the Gram Pradhan. The situation was allegedly exploited by the Gram Pradhan, and the panchayat secretary- a village level government functionary. In addition to the nine BPL cards converted into Antyodaya cards, they fraudulently issued four BPL cards and six Antyodaya cards to different households in exchange of an amount of INR 300. This resulted in an increase in the total number of cards. There are now 57 BPL and 44 Antyodaya cardholders in the village.

The subsidised food is however being received for only 91 cards (53 BPL and 38 Antyodaya), the same being the official figures. The PDS shopkeeper, therefore, could not meet the demand of food from the new (forged) cardholders. Amarsingh and his friends then persuaded the shopkeeper to reduce the delivery of food to the regular cardholders by 5 kg and distribute thus spared food to the new cardholders as ‘after all they are also poor; so what if their cards are forged.’ This has however reduced the food entitlement of households like that of Narayani, further worsening her situation.

Narayani’s household has also been provided with the financial support under IAY for the year 2008-09. According to her, total subsidy paid to them is INR 25,000. They were aware of their entitlement of INR 35,000 for the purpose but believed that out of the sanctioned amount, 4,000 to 5,000 INR had to be spent on paperwork and other formalities, and the remaining amount of INR 5,000 to 6,000 was taken away by the panchayat secretary and Gram Pradhan. In fact, no amount should be spent on any formality and they should receive the entire sanctioned amount. Moreover, construction of a single room without a toilet costs more than INR 40,000 according to the villagers’ estimates. Her house is therefore incomplete as she does not have any means to arrange for the remaining amount to complete the house.

NREGP job cards have been issued in the names of her husband, her son and herself. However, none of them has got any work under the programme so far, while they were among the people who had been issued job cards at the very first instance. Only two items of works have been taken up under the programme in the village-earthwork to fill and level a land depression, and brick-laying on one of the inner streets in the village. A portion of both works was reportedly got done by hiring tractors. As there is no provision of employing machines for work under the programme, the people were reportedly shown to have worked on paper. Since it is cheaper to accomplish works through machines rather than through human beings, the difference in cost was allegedly pocketed by the Gram Pradhan and government functionaries. The Gram Pradhan, on the other hand, alleged that the Junior Engineer in charge for approving the works under NREGP was demanding for 10% commission on the total expenditure to be incurred for the works under the programme. Consequence of all this was that out of the ninety people having NREGP job cards only twenty-one had ever got any employment under NREGP. As against a hundred days of guaranteed employment every year, only two persons could get a maximum of thirty days of work during last three years. No woman in the village was given any work under NREGP.

Narayani and her family members have not opened their accounts in the bank to receive their NREGP wages, as they do not have minimum money required to open such accounts. She plans to open the accounts only when she gets the work and receives her wages.

Additional financial needs generated by social protection programmes
The subsidised food through the PDS requires her household to arrange for more than INR 100 on the day of its distribution. Sometimes when they neither have that amount nor can arrange for it, they have to forego their entitlement of the subsidised food. Narayani feels that she would be much better off if she has an access to smaller loans for shorter durations. Such loans would enable her to utilise the subsidies available to her without burdening her much, as the loans would be small and for shorter durations.

Subsidised housing programme also creates a need for cheaper and easily accessible credit services. The housing subsidy is of no use until the house is totally constructed and worth inhabiting. This subsidy can have an impact if and only if the recipients are able to arrange for additional financial resources, for which the poor recipients like Narayani need an access to reasonably priced credit products. For want of such access, she has not been able to complete the construction of even one room and use it.

Leveraging on their social capital to meet financial needs

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Realising the impossibility of his treatment at his home, Kisanlal’s sister called him to show him to the doctor. According to Narayani, his sister is also in a similar economic situation but is trying to help them through her limited means. While leaving he had also planned to borrow some food grains from her. Narayani is waiting for him to come back with the food grains but is not sure if his sister would be able to help them with food grains.

Her daughter also helped Narayani by giving her an old saree, and that is the only saree Narayani has and keeps wearing. However, her son-in-law is also as poor as is Narayani and thus cannot help her much. His household does not have land or any productive asset. He seeks work in his own village and does not go out, as he is illiterate; ‘what will he do outside?’ wonders Narayani.
Appendix 2B

Household of Meena Devi at Barakheda

Meena Devi, 47, lives with her husband Mulchand, 50, and seven children. Sons are 26, 13 and 10 years old, while daughters are of 27, 20, 18 and 14 years. Only the eldest daughter is married. However, she remains sick and has been left by her in-laws at Meena’s place. She belongs to Katheriya, one of the Scheduled Castes.

Human capital development

As Meena was born and brought up at a town, Kanpur, she has studied until eighth standard and is the one of the most educated women in the village. In fact, none of the village women of her age and above is literate. She wants to educate her children properly but is unable to do that for want of money. Two younger sons and the youngest daughter currently go to the government school in the neighbouring village. The villagers are not happy with the quality of education at the school and if they could afford, they would like to send their children to the private school located about 3.5 km from the village. Her daughter, currently in eighth standard could not recite multiplication table beyond five and could not read her Hindi textbook properly. None of her other children has studied beyond eighth standard. Nobody in her next generation has developed or appears to be developing their human capital sufficiently to rise beyond poverty despite the fact that she is one of the most educated women in the village.

Dwelling and assets

Meena’s family lives in a ramshackled one-room mud house. They have very basic utensils, mostly made of aluminium as they are the cheapest. They cook on a clay chulha (stove) with firewood collected by the children during the day. The house does not have an electricity connection or a toilet. They have four wooden cots in the name of furniture. Her husband owns a bicycle which he uses for commuting to his workplace.

Her father-in-law owns five bighas of ancestral land. He has five sons including Meena’s husband. They do not own any means to plough the land and have to hire a tractor for the purpose. Hiring a tractor costs INR 300 a bigha. If they have money, they cultivate the land, otherwise it remains barren. Credit is not easily available and that is why the entire patch of land was left barren during Rabi harvesting season immediately preceding my visit. Moreover, productivity of the land has gone down over the years due to indiscriminate use of high-yielding variety of seeds, irrigation, chemical fertilizers and pesticides in the area. The land now needs more fertilizers and water to maintain its productivity. There is never enough money available at the household level to apply fertilizers to the field even when they are able to manage the money for ploughing and seeds. Whenever there is yield from the fields, it is distributed among all his sons equally.

Her family used to have a cow but it died about one and a half years back due to diarrhoea. She was also keeping goats and had two goats and a he-goat. They all died about six months back again due to diarrhoea. They spent about INR 300 in their treatment but they could not be saved. She has now stopped keeping livestock.

Livelihood strategies

Her husband works in a gas plant at Panaki, about 15 km from the village. He was hired through a contractor and gets INR 80 INR per day for week days. He is not paid for weekly offs and has no security on the job. He is not covered under any labour regulations and represents the massively growing tribe of informalised workers in the formal sector of economy. He commutes to his workplace on his bicycle and has developed various ailments including swelling in his testicles. The doctors are suggesting for an operation but she does not want him to be operated at a government hospital. She and the other villagers feel that the patients are not cared for in the government hospitals. She does not know the expenditure involved with such operations at a private hospital but estimates it to be somewhere between INR 10,000 and INR 15,000. In spite of being hard-pressed for money, people do not want to take risk with their health for obvious reasons, and prefer private hospitals and the doctors over the government ones. They feel that if they have money or connections, they will be treated well at government hospitals. Private doctors behave much better with them and are more responsive to their queries and concerns. It evokes a feeling of trust among them and they think that they are treated better at private facilities. Most respondents’ initial remarks on the issue always centred on them not being treated well. Not being treated well always comes during detailed discussions.

Meena is however scared for him as he is very weak and may not be able to cope well with the operation. Arranging for that kind of money is a major issue as they do not have any access to the cheap credit. Moreover, after the operation, he will not be able to ride the bicycle for at least six months, according to the doctors. That would effectively cost him his job and that the family can hardly afford, especially when they need money in lump sums to get their children married.
Her elder son also goes to nearby towns of Panaki, Kalyanpur and Kanpur in search of work, as there is no employment opportunity in or around the village, and agricultural land is also not available on sharecropping. Meena is concerned for him as she feels that he is very naive and gets cheated while receiving his wages. He is also unable to negotiate for higher wages. He never gets more than 10 to 12 days of work and never earns more than INR 1,000 a month. Her other sons and daughters also work as agricultural labourers during harvesting season that gives them food grains to last two to three months every year. The younger ones collect 70 to 80 kg of potatoes from different fields. Traditionally, after harvesting the potatoes, the landowners allow others to come to their fields and take away the leftovers.

Meena’s parental house is at Kanpur and she stayed there before her marriage. Her father passed away and her brothers left her mother alone. She got her hand fractured and Meena had to stay with her to look after her. As they needed money, Meena started to look for some work based on the basic skills of midwifery and massaging the new mothers and their children that she had acquired as part of the customs of her caste. As she continues to get some work she is staying with her mother at Kanpur. She is living at Kanpur since October 2008 and normally gets work in the neighbourhood, but sometimes needs to go to faraway places also. This way she earns about INR 1,000 to 1,500 per month. Her children and her husband continue to live at the village. She comes to the village for about two-three days in each month to meet her immediate family.

Food security and vulnerability

She has a BPL ration card entitling her the PDS food grains (wheat and rice) to meet the requirement of her household for about fifteen days through a payment of INR 205. For the remaining days, they buy it from the market whenever they have money. However, it is never bought at one go due to other necessary expenses on bathing and washing soaps, oil, spices etc. staking their claims on the household income. Food normally consists of potato curry with either rice or chapattis. They sometimes cook green vegetables, when Meena comes back from Kanpur with some money. Lentils, they feel, have become costly and are cooked very rarely, while it invariably used to be part of traditional Indian diet of the poor not very long ago. She had last cooked lentils about one and a half months preceding her first interview and had not cooked non-vegetarian food for more than a year. There are at least seven to ten days in a month for six to seven months in a year when they do not have anything to eat with chapattis and eat chapattis with salt. Before she shifted to Kanpur, there were times when she did not have any food at home at all and had to sleep hungry for three to four days at a stretch. There has been no episode of hunger for last one year. The diet is however chronically protein deficient and must be very detrimental to the health of growing children. They never had milk to drink; only milk they have is with tea. They purchase 250 ml milk for INR 5 every day to make tea for entire household. Ghee (purified butter) or butter is out of question.

Other consumptions

Clothes for the children are made once in two years in such a way that half of them get it in one year during Diwali and the other half during next Diwali (October/November). Her husband also gets his clothes once in two-three years. She has never purchased a saree after marriage and manages with the sarees she gets60 during social functions at her household or her parental household. She had got six sarees during her daughter’s marriage.

They have to buy food grains, vegetables, salt, spices, sugar, tea leaves, cooking oil, soaps on a regular basis. The quantity of purchase depends on the availability of money. She and her husband chew tobacco and that also entails expenditure.

Financial transactions: Significant events and income shocks

One of her younger daughters fell sick about ten years back and they had to spend about INR 3,000 on her treatment. They borrowed money from her uncle without interest. That amount has since been repaid. They had to incur major expenditure three years later for the marriage of her eldest daughter that cost them about INR 25,000. As they were unable to give dowry and gave only five utensils as symbolic dowry, they could not search for an employed boy. They still needed to spend towards various customs and the feast for the villagers. She borrowed INR 20,000, out of which INR 5,000 were borrowed at the rate of 120% interest per annum, INR 7,000 at 60% per annum, and remaining 5,000 were borrowed from her SHG at 24% per annum. She could manage to

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60 As a part of ensuring clothing security to women, there is a custom, called bhaat, according to which their brother would get a saree each for them at social functions, especially during marriages either at their in-laws’ place or at their parental household.
borrow INR 3,000 without interest. She is repaying the interest bearing loans first but has not been able to repay it totally. An amount of INR 10,000 of the marriage loan is still outstanding.

Her daughter is however not treated well at her in-laws’ place. According to her, whenever she goes there, she comes back ill and Meena’s family has to spend money on her treatment. She has got a five year-old son. When she was pregnant, she became very sick and was sent to Meena’s house. Meena had to spend INR 2,000 in her treatment, out of which INR 500 were provided by Meena’s brother. Now she is pregnant again and has again been sent to Meena’s place. She has now developed asthma and a valve of her heart has got shrunk. She is admitted in a private hospital at Kanpur and an amount of INR 7,000 is already spent on her, including an amount of INR 2,500 that Meena had saved for the marriage of her second daughter. Remaining amount she borrowed at Kanpur on the goodwill of her mother as she has already exhausted her channels of informal credit.

She does not know how she will manage the money to marry off her other children, some of whom are of marriageable age and others are fast approaching that age.

Financial needs
Meena’s household requires money to meet their regular consumption needs, provide for the contingencies—particularly those related to health, build some productive assets as the household currently does not own any productive asset other than the small patch of land that it shares with other four households, and for the marriage of their six children. Moreover, they live in a house that barely provides them with shelter and is dangerous as it may collapse during monsoons. They therefore further require funds to reconstruct their house. Some of the required funds they can generate by saving regularly over a period of time as the household has at least three sources of cash inflow in addition to casual agricultural work by children. They thus require a savings mechanism that is not only reliable but also has provisions for smaller but frequent transactions. Moreover, it should not impinge on their working hours as that would amount to reduction of their incomes. Some needs, especially those related to the lifecycle events however cannot be met by savings alone. They therefore need reasonably priced credit to avoid chronic indebtedness. In addition, they require frequent access to smaller credit for their agricultural investments, to meet their emergency medical expenses, and smoothen their consumption during the periods of lean incomes.

Expenses on health related issues are major constraints on their finances. A part of it, especially that related to major expenses requiring hospitalisation may be better managed with provision of reliable and broad-spectrum health insurance. Meena’s husband could very well get his testicles operated without spending much from the household kitty, if the household was covered under health insurance. It would have also ensured that he is operated at a competent hospital rather than at any hospital in order to save some money. Moreover, the household could have avoided much of her daughter’s hospital expenses if she was covered under health insurance.

It is also essential for them to be covered under insurance provisions for whatever productive assets they happen to own. Their cow would have fetched INR 10,000-12,000 before it died. Its death reduced the value of household assets by such a big amount at one stroke. Moreover, the household lost a productive asset as sale of its milk was contributing to the household income. Similarly death of goats further impoverished the household.

As the earning members travel far for their work and are also engaged in employments not providing them with any security they need to be insured against accidents and death.

Access to financial services and microfinance
An NGO, Shramik Bharti, organised an SHG in the neighbouring village, Dhool, and Meena along with two other women of Barakheda joined it. The SHG required her to deposit INR 20 per month. The SHG allowed her to borrow on two occasions; INR 1,000 to provide treatment to the youngest son and the goats, and INR 5,000 for her daughter’s wedding. Both loans carried a rate of interest of 24% per annum. She continued with the SHG for about two years. After her daughter’s wedding, she was in a bad financial shape and hence could not repay her loan timely61 or make monthly deposits to the SHG and had to leave the group. She has however totally repaid her SHG loan. Leaders of the SHG were two Brahmin women from Dhool. She was not aware of the details of her SHG or the NGO. She was also ignorant of what was happening to her SHG savings. She however feels that SHGs are beneficial for the people as they provide an access to cheaper credit to people like her. On deeper probe, she stated that she would have been happier with better savings products and more incidents of

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61 As other loans through informal sources carried higher rates of interest, she chose to repay them first.
loans with flexible repayment schedules. She also felt insulted within the SHG when she failed timely repay her loan instalments. Currently she does not have any bank account or any mechanism to save her money.

Another SHG was initiated under the SGSY scheme at Barakheda by one Deepu Dwivedi (again a Brahmin from a neighbouring village) in 2005, consisting of one woman each from twenty households in the village, including Meena. They deposited INR 20 per month with Deepu for eleven months but started distrusting Deepu when they did not get their bank passbook. They all decided to stop their savings and asked Deepu to refund their money. Some women were able to extract a part of their money from him but seven women including Meena could not get back any amount as her husband is considered to be very docile. This incident has made the villagers sceptical and may not trust any such initiative easily in future. In addition, they were deprived of subsidised credit available under SGSY.

Agents of LIC are very active in the area, and being local they are able to convince the people to purchase life insurance policies of LIC. Moolchand, Meena’s husband, had purchased an LIC policy about ten years back when he was working at another plant. He continued to pay the insurance premia for two years, but then his contractor started troubling him and his payment became irregular. As a result, he could not deposit the subsequent premia and lost his premium amount as such policies have a lock-in period of three years. Any discontinuance of a policy before three years does not entitle the policyholder to any refund. Moreover, he was also deprived of his insurance cover.

For cattle insurance the villagers thought that the provision of such insurance is only for the cattle, which are bought on government loan or under some subsidy scheme of the government.

Social protection measures available to the household
Meena’s household has BPL ration card entitling her 20 kg of wheat, 15 kg of rice and two kg of sugar on payment of INR 205 per month, which is sufficient for about 15 days consumption of the household. However she says that in spite of the provision of monthly distribution of the food grains and sugar, the PDS shopkeeper does not distribute it every month and in collusion with Gram Pradhan sells it in black market. They get their quota of food once in two months. Her ration card though bears the entries of distribution of food grains every month. She alleges that at the time of next distribution he makes entries of the previous month and as they desperately need whatever amount of subsidised food they can get. This was independently corroborated in almost all the interviews in the village, but there was no consensus for how many months in a year the shopkeeper black markets the subsidised provisions. The shopkeeper however denied these allegations.

Her household is also supported to construct a latrine under TSC and they were given construction material worth INR 1,500. It was however not enough to construct a roof and provide doors to the structure and hence is not usable. Needless to say, they were all falling apart because of disuse. As material was not enough, the structure also has only one brick deep foundation. The soak pit is also very small with a depth of one foot. With such small soak pits, the latrines may not be of much use even after their full construction. According to her, she would have preferred completing the construction and using it if the amount of shortfall was available to her as cheap credit.

During my visit an inner street was being laid in the village under NREGP and her son was engaged to work as a labourer. She was happy that he was getting work in the village itself and did not have to go out of the village. No woman was however employed for the work.

Additional financial needs generated by social protection programmes
In spite of the PDS shopkeeper’s allegedly dishonest ways, she acknowledges the role subsidised food towards food security of her household. This however creates a demand of INR 205 on the day of distribution. Sometimes when they do not have that amount and cannot arrange for it, they have to forego their entitlement of the subsidised food. This used to happen very often when she was not working at Kanpur. She feels that she would be much better off if she has an access to smaller loans for shorter durations. This way she would also be in a position to complete the construction of latrine that may reduce her medical bills in addition to huge inconvenience of going out to defecate in the open. Such loans would enable her to utilise the subsidies available to her without burdening her much as the loans would be small and for shorter durations. That is precisely the reason that she cannot access such loans through informal channels as interest income against such loans would be small and unremunerative for the lenders.

Leveraging on their social capital to meet financial needs
Meena strongly feels that the extended family-based social protection systems have considerably weakened over the years. The extended family helps only when a household has capability of earning money. She says if she goes to ask for even one kg of flour, she has to listen to the other person’s taunts.

Their social capital networks however are useful in meeting the expenses especially on marriages. Everybody attending the marriage is required to contribute a small sum, sometimes as little as INR five, while bigger amount is expected from near relatives. Such contribution builds up to be a substantial amount as 200-300 people normally attend a marriage.
Appendix 2C

Household of Champaben Palas at Andhari

Champaben does not know her age but she may be about 35 years of age, based on the estimates of her neighbours. She lives with her husband Chimanbhai and two sons aged 14 and 10 years. She belongs to Bhil tribe, an ST community.

Human capital
Champa and her husband are illiterate. They do not have any skill marketable in the employment market. Champa also suffers from bad health and is not able to perform manual labour. Their elder son stopped going to the school after passing class seven about a year ago, and has joined unskilled labour force seeking work at Andhari or at the nearby town, Limkheda. It may not be very long before he starts migrating to support his family. The younger one is studying in class five, and is continuing his studies primarily because the village has a school and he is receiving government scholarship available for the SC and ST children.

Dwelling and assets
Their house is in dilapidated condition. It does not have a toilet or an electricity connection. They have four wooden cots and a few basic aluminium and steel utensils in the house. Champa cooks on a clay \textit{chulha} (stove) with firewood collected by her and the children during the day. The household has five bighas of agricultural land\textsuperscript{62}. Out of it, one bigha is rain-fed and is not suitable for growing paddy. They can only have one crop on this field and grow maize during monsoon. The other four bighas are irrigated and they can cultivate two crops viz. paddy and maize. They can also grow lentils and vegetables on this land. All of four bighas are however mortgaged to raise some money for her treatment. They have a milch cow.

Livelihood strategies
The household has mortgaged four bighas of agricultural land for raising some credit, and is engaged in cultivating maize in one bigha of the land remaining with them. It suffices to meet the household’s food requirements for three to four months. Champa’s husband was earlier migrating to Vadodara but has stopped it for last three years, as Champa is not keeping well. Along with his son, he looks for the casual work in and around the village when not engaged in cultivating the field. They also go to Limkheda in search of work. Champa cannot do much work so she works on the field, and when there is no work on the field she collects grass from the fields in monsoon and sells it at Limkheda. She also looks after the cow.

Food security and vulnerability
Their staple diet is maize chapattis and vegetable curry. They are not able to grow lentils on their remaining field as there is no means of irrigation and they cannot cultivate anything in the winter and summer seasons. As the lentils are very costly, they buy it in smaller quantities and get to eat it only on special occasions or when they have sufficient money. They afford to have non-vegetarian meals even more rarely, with one such meal in three-four months. Milk of the cow is only sufficient for making tea. The household has however not suffered from hunger in the recent past partly due to their entitlement to the PDS food.

Other consumptions and expenditures
Champa and her husband have not bought clothes for themselves for last three years after he stopped migrating. As they have a school-going son, it requires them to buy books and stationery costing about INR 300 every year. The clothes for the children are procured with the amounts of their scholarship that is available to all the children belonging to ST and SC families (elder son also received the scholarship until last year). Major routine expense is on \textit{chandlo}, but as their financial condition is not good they avoid making large payments for \textit{chandlo}. They have to still spend at least INR 3,000 on it every year.

Significant events and income shocks
Champa has developed some heart problem, and keeps having fever and pain in her chest for last four years. She gets herself treated at a private hospital. She has already spent about INR 30,000 on her treatment. Whenever she goes to the hospital the doctors inject a bottle of glucose in her body, give her medicines, and charge about INR 600. She becomes better but starts feeling pain and fever again after about 20 days which is followed by similar treatment. Each round of pain and fever leaves her weaker; she gets bouts of dizziness and frequently suffers

\textsuperscript{62} She does not know how much land she owns; most of the villagers do not know the measurement of their fields, they know it physically. It is like they belong to the land, rather than land belonging to them. They always come up with the quantity of seeds they require to sow the fields. In case of Champa, the land requires 25 kg of maize.
from nausea. According to her, even her husband has got tired of all this. Her treatment appears to be addressing the symptoms without diagnosing the disease. But that seems to be in the interest of the private hospital at the cost of her well-being, which also has serious economic implications for her household. She does not want to go to a government hospital, as she and the people like her, being illiterate, do not understand their procedures at the government hospitals and much of their time is wasted there on unnecessary things. Such practices delay the treatment and patients suffer. Moreover, the people attending to the patients lose their working hours and thus their wages.

She had to borrow INR 5,000, 4,500, 5,500, 3,000, and 3,000 on different occasions for her treatment by mortgaging her land during last four years. Her sickness prevents her husband from migrating and earning better incomes. Her long sickness has also turned away her well-wishers. They no longer come forward to help her when she has shortage of food and other provisions. Her household gets provisions only when her husband has work and brings home his wages. Her son does not get much work as he looks young and weak, and the people in need of casual labour are not convinced of employing him.

Financial needs
Champa’s household requires money to meet her medical expenses, reconstruct their house, meet their regular consumption needs including the expenditure on chandlo, and to provide for other contingencies. Some of the required funds can be generated by saving a part of the wages of her husband and her son, whenever they get work. They thus require a savings mechanism that is not only reliable but also has provisions for smaller but frequent transactions. It should also have provisions to conduct transactions outside their working hours. All of their financial needs, however, cannot be met by savings alone and they require frequent access to smaller but reasonably priced credit for their agricultural investments, to meet Champa’s medical expenses and other emergency needs, and smoothen their consumption during the periods of lean incomes.

Champa’s husband needs to be insured as he is the only earning member as of now and if something happens to him, Champa will also be deprived of her medical treatment. His daily wage casual employment does not provide him with any security. Health insurance is equally important, as, in addition to reduce their health expenses, it will facilitate their treatments at more competent hospitals. They also need to insure their cow, the only productive asset other than their agricultural land.

Access to financial services and microfinance
Champa does not have access to any formal financial service or microfinance. This explains why she had to mortgage four bighas of her land to borrow small sums of INR 3,000 to 5,500 on five different occasions. Mortgaging of the land has further limited her capacity to repay her loans. She is now finding it difficult to access loans through informal mechanisms as well, as she does not have any collateral to offer and the lenders who offer costlier loans without collateral are apprehensive of her repayment capacity. She had to therefore cajole her niece to lend her INR 2,000 just before my final visit to her household, as she was not getting the money from any other source and she had to show herself to the doctor.

Social protection programmes available to the household
Her household has got an Antyodaya ration card to access the PDS subsidised food. Ration cardholders in the village do not seem to be aware of their exact entitlement of subsidised food. This situation allows the PDS shopkeeper to disburse less quantities of foodstuff than those prescribed, and record larger quantities in their ration cards that the ration cardholders either cannot read or do not want to read considering it useless. According to champa, she gets five kg of rice, 10 to 15 kg of wheat flour and two kg of sugar every month on payment of INR 120. The entries on their ration card reveal that they were disbursed 17 kg of wheat flour, 16 kg of rice and 4.5 kg of sugar in July 2008, and 16 kg wheat flour, 13 kg of rice and two kg of sugar in August 2008. According to provisions in TPDS for Gujarat state, an Antyodaya cardholders is entitled to receive 16.7 kg flour (for INR 38), 16 kg rice (for INR 48), and 500 gm sugar per person in the household. Thus, Champa is receiving less than her entitled food at higher than prescribed rates. Even more interesting is the case of cooking oil. None of the villagers including Champa were aware of its provision or reported to have received it but as per their cards, they have “received” four litre of oil in July and one liter in August 2008. Earlier also, according to her ration card, one litre of cooking oil was distributed in the months of July, August, September and October 2007 respectively, which she denied to have received.

Champa’s household also received subsidy for construction of her house under IAY in the year 2005-06. According to her, they received a total of INR 28,000 in three instalments, out of which an amount of INR 11,000 was allegedly taken away in various forms of commission even when the money was disbursed to her through a bank account.
A provision has been kept in IAY to disburse the housing subsidy through a bank account so that the money is transferred in full to the account, and accessed in full by the recipient. This is in response to the reports of the recipients not receiving the total amount of subsidies in the cash delivery system. The bank however requires them to withdraw their money in the presence of the sarpanch and one block level government official as bank people do not “recognise” them. Such requirement creates situations similar to the cash delivery systems and the recipients have to part with a portion of their instalment under a threat that if they do not do so they would not receive the next instalment. Champa says, ‘We don’t understand such things, as they get money in their hands and then pass on some amount to us, mentioning that they will have to give this much to this person, that much to that person etc. When we are in bank, the sarpanch asks us to put thumb impressions on papers and then gives us some money mentioning that the remaining amount is needed to be given to officials who would not do our work without “eating” money. If the money is not given to these sahibs we would not get our next instalment. We don’t even know how much is being given to whom. If we come out of the bank without paying, the sarpanch comes to our home, scolds us and threatens that we would not get our next instalment if we do the same. We are tribals and illiterate so we don’t understand anything.’ Thus involving local government institutions in the delivery of social protection suffers from the structural deficiency characterising such institutions. The institutional centrality of one person, sarpanch, within the institution of gram panchayats makes the process of delivery of social protection immensely vulnerable to misuse.

The official records suggest that she has been disbursed a total of INR 35,887 as the subsidy amount but according to her she has received only INR 17,000. There is no way to verify the veracity of her statement, and the sarpanch and the government officials predictably denied her allegations. Her allegations were however anecdotaly corroborated in several interviews.\(^6\) In any case, whatever money they received was not sufficient for the complete construction of their house. They borrowed INR 5,000 at an interest rate of 120% per annum and put in their savings worth about INR 5,000 towards constructing the house. With the available money, they were able to construct the foundation and erect the walls. As the structure was open, it collapsed during the rains.

After the collapse of the house they got it photographed by spending INR 300, approached the block office for government prescribed relief, filled up the application form for such relief, and took several rounds of block office and the house of the sarpanch, but to no avail. All this took a heavy toll on Champa’s health affecting her heart and requiring them to mortgage their fields. In addition to considerably reducing their income because of the land mortgage, her disease prevented her husband from migrating, which further worsened their economic condition.

An NGO was assigned the task to construct 44 latrines under TSC in the village, but only the toilet seats were found put in the open without walls or soak pits. One toilet seat is also kept in the field near her house. Further enquiries revealed that the NGO has already been disbursed the total budget and no further construction would take place.

**Additional financial needs generated by social protection programmes**

Champa admits that if the subsidised PDS food was not available to the household, her family would have starved for at least one to two months every year. This however creates a demand of INR 120 for her household on the day of distribution every month. Sometimes when they do not have that amount and cannot arrange for it, they have to forego their entitlement of the subsidised food. Champa however tries very hard to arrange for the money on the day of distribution. Earlier she used to ask her neighbours for money but they have started avoiding her now due to her health problems and worsening economic condition of the household.

Access to cheap and adequate credit may have enabled her to construct her house completely. That would have improved her condition of living substantially and would have perhaps benefited her health. In absence of such access to credit, not only the IAY subsidy was rendered totally useless, but the household also had to pay substantial interest on INR 5,000 they borrowed and lost their savings worth INR 5,000. Similarly, they could not derive any benefit from the provisions under the TSC for want of access to small but reasonably priced credit.

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\(^6\) Interestingly, the people who were better off than others and had managed to receive such subsidy denied having been forced to pay a cut on their subsidies. They were perhaps aware of the fact they did not deserve it and so it was fair for them to part with a portion of their ill-gotten money. Men in the other poorer houses were also hesitant in talking about such things, perhaps fearing that they would be victimised later if the concerned officials and the sarpanch came to know of their reporting it to me. Women in all cases were more forthcoming, perhaps because they are not so street smart to foresee such consequences of their revelations and also because they are perhaps more sensitive to the injustice and have not fully accepted it.
Leveraging on their social capital to meet financial needs

Champa is not worried about the expenditure she needs to incur towards the marriage of her sons in terms of the dowry and feast for the villagers. As she has been contributing *chandlo* to other households towards marriages and other occasions, she knows that she would get sufficient amount in the form of *chandlo* to be able to marry her sons off without taking recourse to borrow at a high interest rate. Her sickness has however weakened her social ties and she is not able to manage small amounts of loans without interest from her neighbours now as much as she could do earlier. She could however arrange for a loan of INR 2,000 recently from her niece to meet her medical expenditure.
Household of Mathiben Garwal at Kankari Dungari

Mathiben Garwal does not know her age, but suggests on persistent enquiry that she may be about 40 years of age. She lives with her husband, Savjibhai, three daughters, aged 16, 13 and nine years, and two sons, aged 20 and five years. She has one more daughter who is married and lives in another village.

**Human capital**

Mathiben and her husband are illiterate. Their elder son studied till class 3 and now migrates to Vadodara for work. Younger one is not admitted in the school so far. Daughters never went to school at all.

**Dwelling and assets**

Mathiben’s family lives in a house made of mud and bricks. It does not have a toilet but has an electricity connection with two plug points. They have bulbs but no fan; have some basic kitchen utensils and six wooden cots. They do not have a cycle, radio or a television. Mathiben cooks on a clay *chulha* (stove) with firewood collected by her and the children during the day.

Her household has agricultural land but neither she nor her husband knows its exact measurement. She points out this is the land you see[^64]. Records show that she has six bighas of land. Her husband’s elder brother expired some year back without getting married so Savjibhai inherited his share also. Their entire land is at a higher level with low soil depth due to continued water and wind erosion. There is no means of irrigation and they grow only maize during monsoon. Earlier when Mathiben was also migrating with her husband they did not have any livestock but they acquired a buffalo when she stopped migrating. They do not have bullocks and hire bullocks from neighbours to plough their land.

**Livelihood strategies**

As the agriculture is rain-fed and there is no other work in the village, Savjibhai migrates to Vadodara to work as unskilled wage labourer on construction sites along with his elder son. His son is also unskilled and seeks casual employment at Vadodara. They remain in Vadodara till they get work. Duration of their stay at Vadodara can extend up to five-six months. Sometimes they have to come back in fifteen days only. They however make sure to be present at the time of sowing and harvesting their fields. Mathiben also used to accompany her husband earlier but does not do so any longer, as her health does not permit her to undertake strenuous work in Vadodara. She looks after the agriculture in absence of her husband, tends to the cow and collects firewood with the help of her children. Her husband and the son get INR 100 to INR 120 per day depending upon their bargaining situation. After a month of stay they are able to bring home about INR 1,500 to 2,000 as they get work for about fifteen days on an average in a normal month and have to spend on their food while staying at Vadodara.

Stay at Vadodara is treacherous. I visited their make-shift colony at Vadodara which is on an open space belonging to the Municipal Corporation of Vadodara. Hundreds of tribal families migrating from different villages share that space with about 25 families from Kankari Dungari village. The adult members leave for work or in search of work during the day, while their children play in the dirt and garbage of the colony. Elder children also look after their younger siblings, feed them during the day and collect firewood from far away places for cooking. None of these children goes to school which is anyway neither feasible nor possible in the given conditions.

All the families live in a small patch of land enclosed by polythene and jute sheets. Even the roofs do not have any hard material. The entire structure is supported by the wooden sticks. The structure is obviously not suitable for a human habitation in any weather. There is a municipal water connection for one building under construction on one side of their colony, which is used by all the families staying there to meet their drinking, bathing and cleaning needs. The colony does not have any toilet or bathroom facilities and the inhabitants use one corner of the land plot for these purposes, which makes the entire place even more inhabitable. Women have to finish off their morning routine while it is still dark. They also have to take bath hiding themselves behind their houses in the open.

None of the families staying in the area has been issued ration cards and they have to depend on the local shop keepers for procuring their daily provisions. They do not avail of medical facilities at government hospitals, as according to them whenever they tried to do that, they were made to run around from pillar to post, and did not

[^64]: Most households in tribal villages of Dahod district live near or inside their fields.
get any medicine even after wasting much of their time. They go to the private clinics when they fall sick and have to spend a large part of their earnings on their healthcare. Their unhygienic living conditions appear to be one of the major reasons for their falling sick.

**Food security and vulnerability**

As their agricultural land produces only one crop, it does not meet the food requirements of the household. According to Mathiben that is precisely the reason why her husband migrates along with her son. Maize produced at the field suffices for the household food grain requirements for about eight months. Sometimes when there is an emergency they have to sell maize after harvesting and purchase later at more than double the price. Mathiben had to resort to selling maize recently when her younger son got sick. She did not have money and her husband and the elder son were in Vadodara. She had to spend about INR 2,000 on his treatment.

As two members of the household migrate to earn and the family has access to the subsidised PDS food, there has been no episode of hunger in recent past.

**Other consumptions and expenditures**

Agricultural land only produces maize and hence Mathiben needs to purchase other provisions such as lentils, vegetables, cooking oil, sugar, salt, and spices from the market. She buys smaller quantities of the provisions at the village itself. For larger quantities she travels to Limkheda paying INR 7 as one-way fare.

They buy clothes for children and themselves during the marriage season and spend about INR 2,000 at a time. The major expense is however on chandlo, which is about INR 10,000 every year. Other expenses include buying shoes, soap, hair oil, tobacco and alcohol. They did not report any substantial expenditure on entertainment although the elder son gets to watch some movies in Vadodara.

**Significant events and income shocks**

Mathiben’s household did not experience any major income shock in the recent years. She managed the marriage of her daughter without having to borrow money from outside.

**Financial needs**

Whenever the father and the son come back from Vadodara, they have cash and for want of any suitable savings mechanism they keep it at home. Their expenditures are generally small and frequent, excepting on medical care and purchasing food grains in bulk. Practice of keeping cash at home thus addresses their liquidity requirements but is very risky at the same time, as the nature of construction of their house does not make it a safe place for stashing cash. Being illiterate, the formal savings mechanisms, especially the banks, intimidate them. Even if they overcome their inhibitions and deposit money in the banks, high frequency of their transactions will entail significant loss of their working hours. They therefore need a savings mechanism where they can frequently deposit and withdraw small sums without having to waste their working hours.

They also need to borrow money at regular intervals for various purposes. What was however remarkable is that the villagers do not want to talk about their debts. They also do not view their debt in totality. Debt does not seem to be an independent entity but appears to be subordinated to its purpose. Enquiring about debt in itself generally evokes a negative response. It is only when the question is about the amount of debt for a particular purpose; the amount of debt is revealed but is limited to that particular purpose. Unless one exhausts all the purposes, the situation of indebtedness is not understood totally. Indebtedness situation of a household starts becoming clear only after the first interview, and its fuller assessment requires at least two to three subsequent interviews. Loans may be taken against some collateral or without collateral. Lending rates for collateralised loans range from 36% to 60% per annum, while there were instances of some non-collateralised loans attracting an interest rate of 150% per annum. At least one instance was reported with an interest of 25% per month on a loan amount of INR 2,000 availed for medical purposes.

The most important purpose for obtaining a loan is a medical condition followed by meeting the expenses on chandlo, agricultural investments and the expenses on lifecycle events such as marriages and deaths. Mathiben’s household spends about INR 10,000 on chandlo every year. Whenever they do not have cash to pay chandlo, they borrow it from outside. Mathiben had borrowed INR 1,500 just before my first visit to her household to pay for chandlo, which was organised by her immediate neighbour to construct his house. She however did not need to borrow any money for the marriage of her daughter and it was managed with the amount of chandlo and the

65 There was no instance of such costly loan in Andhari or in the sample villages of UP where the costliest of loans attracted interest of 120% per annum.
dowry her daughter received. She normally borrows money from the shopkeepers at Limkheda. Responding to a question as to why she does not borrow from a bank, she mentioned that banks give loans against the jewellery as collateral and she does not have jewellery to offer to the banks. She also felt that obtaining a loan from a bank is a big hassle and the banks make people run around. Their situation may however immensely improve if they have an access to a reliable and reasonably priced credit mechanism.

The earning members of the household travel far for their work and are also engaged in employments not providing them with any security. They therefore need to be insured against accidents and death. The household also needs suitable insurance services providing coverage to their health and assets. As Mathiben’s husband and son migrate out of their village, they need reliable remittance services so that they do not have to personally come back to the village for delivering money to her.

**Access to financial services and microfinance**

An SHG was earlier functioning in the village that had membership in her locality. She was however not a member of the SHG as according to her, only old women were made members. She further mentions that the SHG could not function for a long time as its leaders took away the savings of the members. All its activities were controlled by Mohanbhai, husband of the president, as he was the only one who was educated (till class 7). The SHG received a subsidised loan for buying a grain grinder which was installed at the president’s house. She promised to serve the members at half the usual rate but did not keep her promise.

Savjibhai was persuaded in 2002 by an agent of LIC at Vadodara to purchase a life insurance policy carrying a premium of INR 900 per annum. He deposited the amount for two years but did not continue it as he could not arrange for the premium amount timely. In the process he lost out INR 1,800 in addition to the insurance cover. Whenever he and his son have spare money at Vadodara, they keep it with their employers as it is not safe to keep it at their place in Vadodara. They get it back when coming back to their village. Sometimes they lose their money (they remember losing it on three occasions earlier, when the employers refused to accept that the money was kept with them) but keep following the same mechanism for want of any alternative. They do not explore the option of saving their money in a bank at Vadodara as they feel that no bank will open their account at Vadodara. On probing deeper, Savjibhai admits that he would not want to open an account at Vadodara as he does not know and trust anybody there other than his employers. Being illiterate, he can only transact with people who he trusts and not on the basis of some pieces of paper. Savjibhai is however willing to put his savings in a bank if it is available in his village and the product suits his requirements. He feels comfortable with the post-office as he knows the postal personnel in the neighbouring village Dantia. He however wants either the post-office to readjust its working hours or collect his savings at his doorstep.

**Social protection programmes available to the household**

Mathiben’s household has been issued an Antyodaya ration card. She is accordingly entitled to receive 16.7 kg wheat flour and 16 kg rice on payment of INR 86. According to her, she only gets 5 kg of rice. Moreover, the wheat flour she gets most often smells foul and is infested with insects. She feeds it to her buffalo. She has an option of buying 3 to 4 pouches of edible oil but is able to procure only 1 or 2 pouches, as she does not have enough money to buy it at one go. One pouch costs her INR 45 at the PDS shop, while it costs about INR 90 in the open market.

Mathiben, her husband and her son have been issued job cards under NREGP but they had got no employment till my last visit to her household in January 2010. Four items of work were sanctioned in the village under the programme in 2009 and were ongoing during my visit to the village but they all relate to digging wells at private fields. The concerned field-owners themselves decide who to be employed for work. They therefore usually employ people from their own households and their neighbours. Mathiben mentions that ‘the employment goes to the family members only; who will call us’. She is not aware of the provisions of guaranteed employment under the programme.

**Additional financial needs generated by social protection programmes**

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66 He has since expired. Interestingly, nobody in the village was willing to speak about the SHG and Mathiben was the first person to provide some information that was corroborated by the others in subsequent interviews. The closure of the SHG seems to have generated substantial amount of suspicion and distrust within the otherwise largely closely-knit village community, and they do not wish to acknowledge or talk about it.

67 They are vulnerable to be cheated in other ways too. They are illiterate and save different amounts irregularly. In case of taking their money back after four-five months, it would be difficult to accurately calculate their total savings. A dishonest employer may be tempted to take advantage of this situation.

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Mathiben is not able to procure her entitled quantity of edible oil for want of money and she has to buy the additional quantity at almost double rate from the open market. Thus she needs access to small credit to be able to claim her entitlement in totality.

**Leveraging on their social capital to meet financial needs**

Mathiben could marry off her daughter without having to borrow money from outside with the help of *chandlo* amount she received from her community members and the dowry she received from the groom’s family. She is also not unduly bothered about arranging the money for the marriages of her other children unlike her counterparts in UP. Institution of *chandlo* thus takes care of the financial needs for the lifecycle events concerning her household.
Judalee, 80, is a widow and stays with her son and daughter-in-law. Her son has a son and a daughter but they do not live in the village. Judalee has a daughter too, married in the same village. She belongs to Lambada, an ST community.

Dwelling and assets
Judalee and other members of her household live in a brick house that has a tin sheet for roof. It has electricity connection and a toilet. The house has a television set and a ceiling fan, which all the households in the village reportedly have, barring one old lady living alone. The house has four wooden cots, some plastic chairs and a study table. Food is cooked on a gas stove. Provision of gas stove and the cylinder was subsidised by the AP government under its Deepam programme. The government contributed INR 3,000 towards the total expenditure of INR 4,000 for the purpose. Judalee’s household does not have any land. It does not have any livestock either, as nobody remains at home to tend to the animals.

Human capital
Judalee is illiterate. Her son and daughter-in-law have both studied till class eight. They however took loans to educate her grandson. He studied Computer Science and has been employed as a software engineer about a year back. He is now earning INR 22,000 per month. They are also educating her granddaughter who has completed her B.Sc. in Computer Science at Khammam, the district headquarter. She has now been sent to Hyderabad, the state capital, for being coached to take entrance test for M.Sc. (Computer Science).

Livelihood strategies
Judalee is old and is unable to work. Her son and daughter-in-law work as construction labourers. There is a high level of construction activity in the village and surrounding villages, due partly to a large number of subsidised houses sanctioned by AP government for all the villages during the last two years. Thus their work is always on demand and both of them are never out of work. Her son has also acquired some skills on the job and earns INR 150-200 per day, while the daughter-in-law earns about INR 100 a day. Their village was sanctioned as many as 518 such subsidised houses during the year 2008-09.

Food security and vulnerability
The household normally consumes rice, lentils, vegetable curries and chapatti. They also have non-vegetarian food at least once every month. Unlike in UP sample villages, none of the households in the village reported not having lentils in their regular diet. They receive two kg of lentils at subsidised rates through the PDS and buy their surplus requirements of lentils from the market. There has been no episode of hunger in the recent past.

Other consumptions
In addition to the expenditure on food, their major expenses have been on the education of their children. As both the children have been studying outside the village, their living expenses and the expenses on their clothes etc. have been substantial, and could be met by resorting to a large scale borrowing compared to the household incomes. The household was however able to maintain its consumption levels due to an efficient availability of financial services through the institution of SHGs. Beyond the expenses on the children’s education, they buy clothes worth about INR 500 every year. Judalee is also able to buy her medicines worth about INR 300 per month.

Significant events and income shocks
Judalee’s husband died of tuberculosis about four years back. They had to spend about INR 10,000 INR for his treatment. He was initially taken to a government hospital but was shifted to a private hospital later on. She borrowed that amount at an interest rate of 36% per annum from relatives and various other people.

She did not spend much for the marriage of her daughter, as she could not afford to give dowry and did not want to get indebted. Her relatives helped her meet the expenses. She could also manage her son’s marriage within the money they received from the bride’s parents as dowry and the contributions from her relatives and neighbours.

Financial needs
Judalee is suffering from hypertension and diabetes, and requires about INR 300 per month towards her medication. She is meeting this expense through her old age pension amount. She does not have any other expenditure as she is staying with her son. Her son however needs large sums of money at regular intervals for his children’s education.
Access to financial services and microfinance
Judalee and her husband worked as casual labourers. They would normally seek work in or near their village. If the work was not available in the village, they would go to Khammam, which is about six kilometres away from their village. Her husband avoided borrowing large sums but often borrowed smaller amounts ranging from INR 100 to INR 200 from his relatives or fellow workers for short durations. He was then able to pay it back as he did not have to pay large amounts in interest.

She is not a member of any SHG but her daughter-in-law has been an SHG member for last fifteen years. About twelve years ago, her SHG was restructured to form a new ten-member SHG, named Laxmi, solely consisting of the women belonging to the Lambada community. During the last twelve years, her SHG was sanctioned loans amounting to INR 6,000, 10,000, 15,000, 50,000, and 490,000 at various points in time. The last loan was augmented by SHG’s own corpus of INR 110,000 to become INR 600,000. Being one of ten SHG members, Judalee’s daughter-in-law received INR 600, 1,000, 1,500, 5,000 and 60,000. She invested the entire loan amount towards the education of her children. She admits that she would not have been able to support her children’s education if she did not have an access to the SHG loans, which were available to her at an interest rate of 12% per annum. Before becoming a member of her SHG, she had to borrow on a few occasions, every time in response to the medical emergencies. Excepting on one occasion when it carried an interest rate of 36% per annum, loans at all other times carried interest rates of 60% per annum.

Another major advantage of being a part of an SHG, according to her, has been her ability to access smaller loans every week in the regular SHG meetings. Such loans smoothened her consumptions when work was not available to them in the past, met the children’s petty educational needs, and allowed her to avoid defaulting in larger loan repayments. Smaller loans also allowed her to access the food subsidies entitled to her family and her mother-in-law. She also acknowledges the support of the fellow members of her SHG when she faces any problem. She is more respected within her household due to her ability to secure cheaper loans.

As her SHG consisted of the women from almost homogenous social and economic backgrounds, they had decided to equally share the external loans from the bank. I attended one meeting of the Laxmi SHG, and went through its accounts and other documents. I did not find any incidence of larger share of loans going to the SHG leaders which was almost a norm with all the SHGs studied in UP and Gujarat. Thus unlike in UP and Gujarat, the distribution of physical asset-building and accumulation within the SHG-member households was not skewed and the SHG movement was not found perpetuating the already existing inequalities in this village. This is largely attributable to the homogeneous membership structures of these SHGs.

Her being a member of the SHG also allows her to build up her savings with a mandatory saving of INR 120 per month.

Social protection programmes available to the household
Judalee has an Annapurna PDS ration card, while her son’s family has a BPL ration card. Her ration card entitles her to 10 kg of free rice, in addition to 4 kg of rice, 1 kg of red gram lentils, 1/2 kg of sugar, and 1 litre of cooking oil per month on payment of INR 59.75. Her son’s ration card further entitles the household 16 kg of rice, 1 kg of lentils, 1/2 a kg of sugar and 1 litre of cooking oil for INR 103.75 every month. During festivals, they are also provided 7 kg of wheat at the rate of INR 7 per kg. Judalee and her daughter-in-law were aware of their entitlements through the PDS unlike their counterparts in Gujarat sample villages. Judalee’s daughter-in-law mentions that this is possible because of her being a member of an SHG in the village. SHGs and the VO in her village have been instrumental in spreading awareness on various social protection and other government programmes, and linking their members with such programmes. Moreover, Judalee’s daughter-in-law is in a position to access small amounts of credit through her SHG, and is thus able to utilise the total food subsidy entitlement of her household even when she does not have sufficient money.

Judalee is a recipient of old age pension and receives it on the first working day of every month. The pension is disbursed through the village federation of the SHGs. That is why it has been possible for the state government of AP to disburse it regularly on fixed days unlike in UP and Gujarat where the receipt of the pension is highly irregular partly due to such infrastructure not available in those states. The recipients mentioned it with some

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68 At the time of the study, her SHG was receiving INR 25,000 per month as loan repayments. It was repaying INR 12,000 to bank and ploughing back the remaining amount to further extend the loans to its members, in addition to the SHG weekly savings. Thus the compounding nature of interest keeps expanding the funds available with the SHG to extend credit to its members.
pride that even when the government personnel do not get their wages timely, their delivery system never fails them. Such regularity and assurance of payment helps the recipients plan their expenses ahead of the time, and even enables them to borrow small sums through their SHGs as well as the informal mechanisms as the creditors are aware of their assured regular incomes. In case of Judalee, this also implies that she is able to buy and take her medicines without any interruptions. If she was not receiving her pension regularly, it may have been difficult for her to cope with the diseases that require regular medicines thus needing regular cash inflow.

Thus Judalee is benefiting by the mechanism of linking microfinance delivery infrastructure with the provisions of social protection even when she is not a member of any SHG.

Judalee’s daughter-in-law has been sanctioned housing subsidy under IAY, but she is not planning to utilise it to construct a better house for themselves. The household has a clear preference for their children’s education to spending the money to meet their other needs. Judalee’s daughter-in-law states plainly, ‘if I spend money to meet our own needs, we would not get anything back; but if I spend on the children, we would get our money multiplied’

As her SHG consists of the ST women only, it received a subsidy of INR15,000, which the members decided to use as revolving fund. The SHG was further provided with an SGSY subsidy of INR 50,000, thus the group got INR 65,000 under subsidy programmes. Thus, unlike UP and Gujarat sample villages, where no SHG organised for the purpose could sustain long enough to claim the SGSY subsidy, the members of Laxmi SHG could secure such subsidy. They however again decided to use these funds to build the corpus of their SHG and thus expand the extent of credit available to them.

Judalee’s son and the daughter-in-law have NREGP job cards. The son however prefers doing work outside the NREGP as he commands more wages than are available under the NREGP. The daughter-in-law goes for NREGP works when not working otherwise. She worked for sixty-five and seventy-one days on NREGP during the last two years. Unlike in UP and Gujarat sample villages, all the willing people have got employment under NREGP and a large majority of NREGP workers have been women. Moreover, unlike in Gujarat sample villages, only public works such as cleaning and deepening of major tanks, and desilting and repairing of canal have been taken up under NREGP.

Success of NREGP in AP sample villages vis-à-vis Gujarat and UP may largely be attributed to the SHG infrastructure. The VOs are closely working with the panchayats to ensure that all the applicants get job cards timely and all those willing to work are given employment. The VOs have also been made responsible to provide worksite facilities, such as availability of water and shade. The MOs have constituted social audit committees to audit the NREG programme in all the villages within the Mandal. The committee members visit the villages and the worksites, and ensure that all the people at work have their accounts in the post offices and banks, and that the wages are being distributed timely and accurately. Open forums are held at the Mandal headquarters where complaints regarding the programme are heard and the people are made aware of different provisions in the NREG Act. The NREGP authorities present at the forums receive feedback on the system of receipt of wages and other issues relating to the Act. Such platform is not available to the people of UP and Gujarat.

As the household consists of landless labourers, it has been enrolled in the group insurance scheme, AABY providing them with life and disability cover. They are not required to pay for the premium and the premium amount is equally shared between governments of India and the AP government. As is mentioned elsewhere, the group insurance programmes to the landless labourers and the BPL households are being managed and delivered through the SHG network in the entire state. All the eligible households in UP sample villages, and a majority of them in Gujarat sample villages are deprived of such insurance cover for want of a similar infrastructure.

Additional financial needs generated by social protection programmes
In the case of Judalee’s household, additional financial needs generated by the provision of social protection are met by the institution of SHGs available in her village. The household is also able to take full advantage of social protection provisions due to its ability to meet the financial needs generated by the social protection programmes. This improves the impact of social protection programmes considerably.

Leveraging on their social capital to meet financial needs
Judalee could manage the marriages of her son and the daughter without resorting to borrow money due to the support and financial contributions from her relatives and neighbours. Her daughter-in-law has been a part of an

69 English translation of her statement

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SHG having the same members for last 12 years. This has deepened her ties with the households of other members of her SHG with similar social and economic conditions. Her SHG is a part of the VO at village level, which connects her to other households from different communities with varied socio-economic situations. Her participation in the SHG activities thus enriches her household’s bonding (intra-community) as well as bridging (inter-community) social capital. Such enriched social capital will be of immense help to the household to better cope with any adverse situation or shock in future.
Household of Nagmani at Bachalakoyagudam

Nagmani, 40, is a widow living with her three daughters aged 19, 17 and 15 years. Her husband died in 1996 due to appendicitis. She belongs to Koya tribe, an ST community.

Human capital
Nagmani had herself studied till class five but has tried to educate all her daughters even after the death of her husband. Her eldest daughter is studying in B.Sc. at Kottuvadam, while youngest one is studying in class 10. The second daughter could not study much and stopped her studies after passing class 8. She has however learnt tailoring skills.

Dwelling and assets
Nagmani and her daughters live in a brick house constructed with the help of subsidy under IAY. The house has electricity connection and has a colour television, a ceiling fan, three wooden cots, four plastic chairs and some steel and aluminium utensils. It also has a functional toilet with water-closet. Nagmani cooks on a gas stove that was provided to her along with a gas cylinder under Deepam programme of the AP government. The total expenditure on procuring the stove and the cylinder was INR 4,000, of which the AP government contributed INR 3,000 through her SHG. Nagmani has two acres of agricultural land, which produces cotton. She cannot grow paddy on this land for want of irrigation. She also has a small provision shop in the village.

Livelihood strategies
Nagmani has leased out her agricultural land for an amount of INR 2,000 per year, as there is nobody at the household to cultivate the land. She also needs cash for her daughters’ study. She works as an agricultural labourer. After the death of her husband she borrowed money from her SHG to open a small provision shop in the village. She sits at her shop till 10 am and goes for the agricultural labour afterwards. She comes back at about 5 pm and then opens the shop again. This seems to be a good business strategy as maximum business is transacted at the shop in the mornings and evenings only. During the day most adults go out for work, either on their own fields or outside the village. She tries to first find the casual work in the village itself and if no work is available in the village, she goes outside. She also goes for NREGP work if it is available in the village. Her second daughter has learnt tailoring and can earn up to INR 200 per day if she gets sufficient work. Nagmani normally gets INR 100 per day as an agricultural labourer and earns up to INR 100 per day on good business days from the shop.

When her husband died, she had nothing but 2 acres of land. Moreover, she had three young daughters to bring up. She is in a much better economic situation now, and has been able to educate and bring up her daughters very well, with the help of the financial services available to her through her SHG and the efficient provisioning of social protection programmes of the State largely due to its delivery through the SHG infrastructure.

Food security and vulnerability
Nagmani has an Antyodaya ration card and receives 35 kg of PDS rice per month that suffices the household for the whole month. She also gets 1 litre of edible oil and 1 kg of lentils, which are sufficient for two weeks’ needs of the household. For the other two weeks she buys lentils and oil from the market. She normally cooks lentils once in three days and chicken once every week. On the other days, they cook vegetables. Eggs are generally consumed once every week. She buys milk for INR 5 everyday for making tea.

Other consumptions and expenditures
The household routine expenses other than on food and her daughters’ education are about INR 1,000 per month. These basically include expenses on clothes and shoes, entertaining guests, buying soaps, hair oil and medicines, and paying electricity bills.

Significant events and income shocks
Before her husband died, she had. When her husband fell ill, he was first admitted to a government hospital. He was shifted to a private hospital later on as she was not satisfied with the treatment at the government hospital. This increased her expenditure substantially and she had to spend INR 20,000 but could not save him. She borrowed this amount from her relatives and her mother, as she and her husband did not have money. She could however manage this loan without any interest.

Financial needs
Nagmani’s eldest daughter stays in a hostel and has to pay a subsidised amount of INR 3,000 per annum towards her accommodation and food. She also receives government scholarship being an ST student. Nagmani thus needs to spend INR 5,000 per annum on her education. She also needs to spend about INR 500 per annum towards the education of her youngest daughter.

There has been no major ailment in the family requiring large expenditure after her husband’s death.

Access to financial services and microfinance
Nagmani joined Kaushalya SHG in the year 1994. She used the first few loans, she accessed through her SHG after the death of her husband, for her household consumption. Such loans amounted to INR 400, 2,000 and 5,000, in addition to several smaller amounts but accessed more frequently. As she was the only breadwinner for the house with small children at home and agricultural land not producing much, she decided to put up a small provision shop in the village. She borrowed INR 5,000 from her SHG and invested it to open the shop.

After the initial phase of struggle, her shop started generating profits. In addition to meeting her consumption needs, the profits through the shop also helped her start making repayment of the loans she accessed at the time of her husband’s ill health. She further borrowed INR 10,000 from her SHG and repaid those loans. She however kept borrowing smaller amounts on regular basis to meet the requirements of children’s education, and kept repaying through the profits of her shop and the wages she earned as an agricultural casual labourer. It was possible for her to make timely repayments as the loans she accessed were much cheaper than those accessed by her counterparts in UP and Gujarat.

She was sanctioned an IAY house, which she constructed in 2008 with the help of a loan of INR 20,000 through her SHG. She has not had any emergency requiring her to borrow more than INR 5,000 since the construction of the house. She does however need to borrow smaller sums from her SHG for various purposes including meeting her daughters’ educational expenses, celebrating festivals and buying provisions for her shop. In addition, the SHG allows her to save INR 120 per month.

Social protection programmes available to the household
Nagmani has an Antyodaya card to access the subsidised food through the PDS. The card entitles her to procure 35 kg of rice, one litre of cooking oil, one kg of red gram lentils and one kg of sugar at a payment of INR 148.50. She always ensures to procure her total entitlement of food even by accessing the smaller loans through her SHG when she does not have sufficient money to buy the provisions at one go. The amount of food subsidy in her case worked out to be INR 568.50 every month at the time of the study.

She was sanctioned a housing subsidy of INR 35,000 under IAY, and she constructed her house additionally accessing a loan of INR 20,000 through her SHG at the interest rate of 3% per annum. The government of AP subsidised remaining interest of 9% per annum. She was also disbursed INR 1,650 by the AP government towards labour work for providing foundation to her IAY house under NREGP. She was also provided with INR 2,750 to construct a toilet under the TSC along with 100 kg of free rice for digging a soak pit for the toilet. Her house and the toilet were fully constructed and functional at the time of this study.

Nagmani says that the quality of food they consume now is vastly improved from the time when she came to this village after her marriage due largely to the TPDS and also due to increased availability of other social protection provisions coupled with the SHG movement. According to her, this is the case with all households without any exception. Moreover, at the time of her marriage, all the houses of this village, excepting one belonging to the ex-sarpanch, Konarangayya, were mud houses. This was the position until about six year back. All the households in the village, excepting that of Konarangayya, have benefited by now through financial assistance towards construction of their houses under various government schemes. All of them now have brick houses and toilets.

Nagmani is in receipt of widow pension, which she gets on the first working day of each month through her VO unlike her counterparts in UP and Gujarat who have to sometimes wait for more than six months for their pension. Nagmani has also been insured under a group insurance scheme, Janashree Bima Yojana (JBY), available for the BPL households. Out of insurance charges of INR 200 per annum, she pays INR 100 per annum for life and disability coverage. Remaining charges are paid by the government of India through its social

70 At the time of the study (June 2009), the rice was INR 17 per kg, cooking oil, INR 60 per litre, red lentils INR 42 per kg and sugar INR 20 per kg. All the items have become much costlier since, due to a high rate of current food inflation in India.
assistance funds. The scheme is entirely administered by her VO, MO and DO and is underwritten by the LIC of India. Although the scheme is available for the whole country, it has not been extended to any BPL household in UP and Gujarat sample villages, as they do not have any such delivery infrastructure comparable to the SHG network in AP sample villages.

Nagmani also worked on NREGP and could get 60 days of employment under the programme in 2008-2009. Although this is a much better situation than in UP and Gujarat sample villages, no household in this village could get 100 days of employment guaranteed in the Act.

**Additional financial needs generated by social protection programmes**
Nagmani is able to meet the financial needs of her household as well as the additional financial needs generated by the provision of social protection programmes through her SHG. She is also able to take full advantage of social protection provisions due to her ability to meet the financial needs generated by such programmes, which substantially improves the impact of social protection programmes.

**Leveraging on their social capital to meet financial needs**
Nagmani had the support of her social network to be able to access a loan of INR 20,000 in 1992 without interest. Although she started to make proper repayments only after 1998, the amount did not increase beyond her repayment capacity even with the availability of the support through her SHG, which would have been the case if it was on interest. Moreover, her participation in the SHG activities enriches her bonding (intra-community) as well as bridging (inter-community) social capital as discussed in the preceding case study. Such enriched social capital will be of immense help to the household to better cope with any adverse situation or shock in future.
Guide and indicative questions for interviews

Guide for qualitative interviews in the villages

Following general themes guided the qualitative interviews and also guided the collection of qualitative data through participant observation in the villages:

1. General profile of the person and household: name, gender, age, community, education, BPL number (if applicable), number of members in the household, their gender with age and educational details;
2. Details of all sources of livelihood for the entire household; for how many days each member of the household has been in gainful employment during the last week, last month and the last year (temporal distribution of the occupational engagements for at least the last one year);
3. Details of cash inflow through each livelihood activity and the temporal distribution of such inflow capturing as many variations as possible;
4. Details of all other non-cash incomes of the households- their value in INR;
5. Occupational history of all the members of the household (as much as they can recall);
6. Reasons of any changes in the livelihood patterns- its effects on the cash and non-cash incomes of the households;
7. Any major cash inflow during last five years (like sale of some assets, receipt of dowry etc.) and its utilisation (e.g. towards meeting some major necessary expense, saved etc.);
8. Details of total household expenditures on the day of the interview, the previous day, week preceding the day of interview, the previous month, the previous year [indicative items of expenditure- on food, medicines, clothes, travel, agricultural expenses, house repairing, children’s education, loan repayment, purchases (livestock, utensils or any other thing)];
9. Details of assets- productive and non-productive (indicative list- house- mud or pucca, number of rooms, with or without toilet; land- how much, irrigated or unirrigated; livestock; other household assets- utensils, furniture, electric fans, bulbs, tubelights, cycle; drinking water arrangements), value of each asset, how was each asset acquired;
10. Quality of food consumption on the day of interview, the previous day, week and month. Has it been affected by the social protection provisions, and if so, how?
11. Savings during last 12 months and total current balance (e.g. kept at home, post-office, banks, cooperatives, SHGs, other informal sources with details), number of incidents of savings along with the amounts saved, any formal savings account closed during the last five years;
12. Current level of indebtedness, details of loans taken during last five years from all sources, amounts, the rates of interest, and purpose in each case, amount of repayment in each case so far;
13. Insurance- life or non-life, the reasons for enrolling for insurance, and if not participating, the reasons for non-participation;
14. Details of significant events during last five years (and longer in the past if it can be recalled) and how they were financed (indicative list- marriage in the family, health problems of the members of the household, construction of house, repairs of house, purchase of land, purchase of other asset, funeral expenses);
15. Any income shocks (both adverse and favourable) they experienced recently (and if possible, in the past- if they remember) and how did they cope? Did the shocks change their short-term/longer- term livelihood strategies?
16. Benefits from the social protection and other government schemes, details of benefits in each case (indicative list- Public Distribution System, subsidised housing schemes, pensions and cash transfers, NREGP, SGSY, group insurance schemes, loan waiver);
17. Their experience with each of such schemes- during identification, and the process of delivery and disbursements;
18. Effects and contribution of each scheme in detail (indicative list- towards their cash inflow, outflow, consumption, well-being, child labour, household resource allocation, human capital development, creation of assets, their social status, availability of credit, reduction in migration);
19. Discussion on the financial needs- nature, extent and incidents of felt needs;
20. Availability of microfinance service providers, level of their access to such institutions, to what extent they meet their financial needs, what extent of such needs are being met through informal sources, such as moneylenders;
21. Effects of the provision of social protection and other government schemes on their financial needs; what would be the impact of meeting such needs?
22. How suitably is the local post-office located to meet such needs?
23. What is the role of local post-office in their lives, how accessible is it, how suitably located is it in geographical as well as in social terms, how do they compare it with other similar institutions, such as other government offices, panchayats, banks, cooperative society offices, SHGs, MFIs?
24. What in their view should change with the post-office for it to become more relevant to them in general and more effective in delivering the financial services?

Indicative questions for the semi-structured interviews with the post-office staff
Semi-structured interviews were conducted to elicit the response of local post-office personnel towards the measures proposed by the BPL households for their financial inclusion and how such measures can be translated into concrete products to be offered through the post-offices. The questions posed to them included:

1. What, in their view, are the financial needs of the villagers in general and the BPL households in particular?
2. How have these needs changed over the years and what are the trends of such changes at present?
3. What are the factors responsible for such changes?
4. To what extent are the existing postal financial products meeting the financial needs of the BPL households?
5. Is it possible to meet the remaining needs through the post-offices?
6. What can be done by the post-office to address the currently unmet needs?
7. What kind of services may be designed and offered by the post-offices to meet such currently unmet needs?
8. Is the post-office in a position to provide financial as well as non-financial needs as articulated by the poor in their villages?
9. What kind of changes will provision of such additional financial and non-financial services entail on their workload, profile of work, record keeping, accounting procedures, supervision, and monitoring of their work?

In addition to the village post-office staff, their supervisors and managers were also interviewed on the same issues. Their interviews were however more focused on the perceived changes in their role and additional workload to be generated by the proposed provisions of the financial and non-financial services to the BPL households.
Appendix 4

Various poverty measurements

Absolute poverty measures
Absolute poverty measures are concerned with only the poor people. There are four types of absolute poverty measures: (a) The headcount approach simply counts the number of people, who are regarded as poor; (b) The poverty gap approach measures the gaps between the incomes of the poor and the income determining the poverty line; (c) Approach measuring distribution of income among the poor which involves drawing Lorenz curve and calculating Gini coefficients. The Lorenz curve is obtained by plotting the cumulative shares of income on the x-axis, and the cumulative percentage of the population on the y-axis. Gini coefficient represents the ratio of the area between the Lorenz curve and the 45 degree line dissecting x- and y-axes, to the total area between the 45 degree line and the x-axis. Gini coefficient measures inequality in the distribution of income in a given society. The coefficient can take a value between 0 and 1. Values approaching 1 represent higher inequality.

Composite poverty measures

(i) Sen Index
Sen index is a composite measure of absolute poverty incorporating the Gini coefficient and headcount and income gap approaches and thus provides the information on the number of poor, the extent of their poverty, and the distribution of income among them. The index was first proposed by Amartya Sen (Sen 1976). The Sen Index is mathematically expressed as under:

\[ S = H \left[ I + (I-I) G_p \right] \]

\[ S = \text{Sen poverty index} \]

\[ I = \sum \frac{(z-Y_i)}{q_z}; \text{the average income shortfall as a percentage of the poverty line} \]

\[ I = 1 \]

\[ Y_i = \text{income of the } i^{th} \text{ poor household} \]

\[ z = \text{poverty line} \]

\[ q_z = \text{number of households with incomes } < z \]

\[ H = \frac{q}{n}; \text{headcount ratio} \]

\[ n = \text{total number of households} \]

\[ G_p = \text{Gini coefficient among the poor} \]

\[ 0 < G_p < 1 \]

(ii) The Pa measure of poverty
Foster, Greer, and Thorbecke further expanded the scope of absolute measurement of poverty by introducing the Pa measures of poverty in 1981. These parametric poverty measures contain all the information of Sen’s index and are also sensitive to changes in the number of poor, inequality, and the income gaps. The measures are mathematically expressed as:

\[ Pa = \frac{1}{n} \left[ \sum (g_i/z)^\alpha \right] \]

where \( \alpha \geq \varphi \)

\[ n = \text{total number of households} \]

\[ g_i = \text{poverty gap of the } i^{th} \text{ household} \]

\[ q = \text{number of households below the poverty line} \]

\[ z = \text{poverty line} \]

Relative Poverty Measures
Relative poverty measures determine the extent of poverty on the basis of the overall income of the total population and regard a fixed percentage of the population earning the lowest income as poor. As an example, the policy makers may consider 33% of the population at the lowest end of income spectrum as the poor, and 10% of the population earning the lowest income as the poorest, to be targeted under special policy prescriptions. People belonging to such population segments may not qualify to be poor with respect to the world standards,

however they are relatively poor in that particular population. Another relative poverty approach defines the people as poor if their incomes are less than a fixed percentage of the mean income of the entire population.

**Absolute Income Measures**

Absolute income measures are based on the premise that attempts to seek well-being of the entire population will also result into the well-being of the poor. Thus, absolute income measures estimate the 'total or average social welfare and not the welfare of the poor (alone)'. Accordingly, the social welfare is regarded as a function of individual incomes within a society:

\[ W = f(Y_1, Y_2, \ldots, Y_i) \]

where \( W \) = social welfare

\( Y_i \) = income of the \( i \)th household.

The most popular absolute income model was designed by Ahluwalia and Chenery (1974). Ahluwalia and Chenery divided the entire population into income group quintiles and expressed the economic growth for the whole population as

\[ G = w_1 g_1 + w_2 g_2 + \cdots + w_5 g_5 \]

Where \( G \) = economic growth

\( w_i \) = welfare weight of the \( i \)th quintile

\( g_i \) = income growth rate of the \( i \)th quintile

If we know the growth of GNP, contribution of different income quintiles to the total income and growth in income of any quintile (quintiles) for a particular year, we can estimate income growth of other quintiles taken together. For example, if we know the income growth for top one or two quintiles, we can estimate the growth in income of the bottom three or four quintiles.

**Relative income measures**

Relative income measures estimate the extent of inequality in income distribution and consist of the Lorenz curve, the Gini coefficient, and the Generalized Lorenz curve. The Lorenz curve for relative income measures is drawn for the income and population shares of the entire population and the Gini coefficient is determined from such a Lorenz curve. The Generalized Lorenz was proposed by Shorrocks (1983), which is the standard Lorenz curve with its scale changed to the average income of the population. According to Shorrocks, extent of real incomes is as important as its equitable distribution.
Social protection programmes selected for this study

1 Subsidised food programmes [Targeted Public Distribution System (TPDS) and Antyodaya Yojana]

India accounts for the largest number of hungry people in any single country in the world. FAO (2004: 7) estimates that there are more than 221 million poor and hungry people in India. Sharma (2005) suggests that there may be 320 million hungry people in India, constituting one third of the total hungry people in the world. According to UNICEF (2007), 42% children in India were underweight as against 28% such children in sub-Saharan Africa, generally considered to be the poorest region in the world. Intervention of the government to provide food to the people assumes significant importance in this context.

Public Distribution System (PDS) is the biggest such food-based intervention by the government of India in collaboration with the state governments. Based on a rationing mechanism the PDS makes subsidised food available to the people all over the country. Eligible households are provided with ration cards that entitle them to buy their quota of selected commodities at subsidised rates from a network of fair-price shops. The network consisted of 0.48 million fair-price shops catering to 222.2 million households with ration cards in 2006. In the financial year 2006-07, 31.6 million tonnes of food grain (rice and wheat) were distributed through the PDS (Government of India 2008).

History of public distribution system in India can be broadly summarised in four phases (Swaminathan 2000). It was initiated by the British in Bombay in 1939 as a rationing mechanism in response to the war. The system was gradually expanded to other cities and the regions, and was largely based on imports of food grain. Second phase that lasted from 1960 to 1978 witnessed major organisational changes caused partly due to the food crisis in the mid-1960s. During this phase, the government of India established the Agricultural Prices Commission and the Food Corporation of India aimed at strengthening domestic procurement and storage. The Green Revolution generated large food surpluses in the 1970s, which prompted the government to engage in large-scale expansion of the PDS with heavy domestic procurements. The expansion of the PDS also caused food subsidy to increasingly become a major item of government expenditures during this period (Ramaswami 2005). The policy of universal PDS was however abandoned in 1997 in favour of Targeted PDS [TPDS] in order to reduce fiscal deficit by curtailing the food subsidy (Government of India 1997) ‘in line with the objectives of economic liberalisation’ (Swaminathan 2008). The targeting is based on income poverty line to distinguish poor from the non-poor households (Swaminathan 2008a).

The poor are further subdivided into three categories for targeting under the TPDS for subsidised food: households located below the poverty line (BPL households), beneficiaries of Antyodaya Anna Yojana (scheme to uplift those at the bottom), and indigent people living alone covered by Annapurna Yojana. In order to maintain the distinction among various categories, ration cards of different colours are issued to the households belonging to different categories. Subsidies are higher in case of Antyodaya households than for the BPL households, while Annapurna households are entitled for ten kg of food grains per month free of any charge.

Antyodaya cardholders in UP receive 15 kg of wheat (@ INR 2 per kg), 20 kg of rice (@ INR 3 per kg), kerosene (@ INR 11.50 per litre), and 2 kg of sugar (@INR 14 per kg) per month. The ration is normally sufficient for a family of four people for up to a month. BPL cardholders also get equivalent quantity of ration but have to pay more for wheat and rice. They pay at INR 6.50 per kg for rice and at INR 5 per kg for wheat.

TPDS in Gujarat entitles a BPL cardholder 1.5 kg of maize or wheat per person (maximum 9 kg) @ INR 2 per kg. They are also entitled to 2.5 kg of rice for less than six member-households and 3.5 kg of rice (@ INR 3 per kg) for larger households. They are entitled to 300 gm of sugar per member, subject to a maximum of 2.5 kg (@ INR 13.50 per kg) per household. Antyodaya cardholders receive 16.7 kg wheat flour (for INR 38), 16 kg rice (for INR 48), and 500 gm sugar per person. Edible oil is also distributed during festivals.

In AP, the BPL cardholders are entitled to four kg of rice per person per month (@ INR 2 per kg), subject to a maximum quantity of 20 kg per month for a household. Rice is staple food in this area but wheat is also demanded during festivals. The government therefore also makes 2 to 5 kg wheat available per card during the time of festivals at INR 7 per kg. In addition, each cardholder also receives 1 litre of palm oil @ INR 35 per litre, 1 kg of red gram lentils @ INR 30 per kg (the market rate at the time of study was INR 42 per kg), 1 kg of sugar @ INR 13.50 per kg (the market rate was INR 20 per kg). Each Antyodaya cardholder in AP is entitled to 35 kg of rice @ INR 2 per kg, irrespective of the number of members in the household, in addition to all other
provisions of BPL ration card. Annapurna cardholders are entitled to 10 kg of free rice in addition to all the other benefits to the BPL cardholders.

2 Cash transfer programmes [National Social Assistance Programme (NSAP) including old age, widow and disability pension schemes]

National Old Age Pension scheme (NOAPS) was initiated as part of the NSAP in August 1995 to provide regular financial assistance to the destitute persons over 65 years. In 2006, the contribution of government of India was enhanced from INR 75 to INR 200 per person per month. The Scheme was renamed as Indira Gandhi National Old Age Pension Scheme in November 2007, and was extended to all the people over 65 years and living below the poverty line. The scheme aimed to cover 15.7 million people with an annual expenditure of INR 37.72 billion in addition to the contributions of the state governments. An important aspect of the scheme was an advisory issued to the state governments to disburse the pension amount through the accounts of the beneficiaries in post offices or banks, wherever possible.

In February 2009, the government of India announced assistance of INR 200 per month for BPL widows in the age group of 40-64 and an equal amount for the “severely” physically disabled in the age group of 18-64 years. The schemes, announced in the interim budget of government of India before 2009 general elections, are named as Indira Gandhi National Widow Pension Scheme and Indira Gandhi National Disability Pension Scheme. Although the schemes under NSAP are centrally sponsored, most states voluntarily contribute to increase the amount of assistance available to individual household recipient.

3 Rural housing subsidy programme [Indira Aawas Yojana (IAY)]

The government of India is providing financial assistance to the BPL rural households belonging to the SC/ST communities, and freed bonded labourers towards construction / upgradation of their houses under Indira Awaas Yojana (IAY) since 1985-86. The scope of IAY was however extended to cover non-SC/ST but BPL rural households in 1993-94, limiting such benefits to non-SC/ST households up to 40% of the total IAY allocation. The benefits have been further extended to the families of ex-servicemen of the armed and paramilitary forces killed in action. In addition, 3% of the funds are being reserved for the physically and mentally challenged BPL persons in the rural areas. Funds and physical targets are also being earmarked for the BPL households belonging to minority communities in each state since 2006-07.

Government of India bears 75% of the total financial assistance provided under IAY, while the states are required to contribute the remaining amount. Fund allocation to the states depends on shortage of housing in the state (75% weightage), and the poverty ratios prescribed by the Planning Commission (25% weightage). Number of houses to be constructed in a village is intimated to the village panchayat by the concerned DRDA and it is the responsibility of the Gram Sabha to select the beneficiaries, restricting their number to the target allotted to the village. The ceiling on the financial assistance towards construction of a new house has been enhanced to INR 35,000 per unit in the plain areas and to INR 38,500 in hilly/difficult areas since 1 April 2008. Financial assistance for upgradation of a kutcha (mud) house has also been enhanced to INR 15,000 per unit.

4 Wage employment generation programme [National rural Employment Guarantee Programme (NREGP)]

NREGP was initiated in pursuance of National Rural Employment Guarantee Act (NREGA), 2005, an attempt of government of India to link employment with human rights. Recognising that employment protects a human being from hunger and allows her/him to live with dignity, the Act aims to ‘provide enhancement of livelihood security of the households in rural areas of the country by providing at least 100 days of guaranteed wage employment to every household in unskilled manual work’ (Ministry of Law and Justice 2005).

All the adults residing in rural areas are eligible to demand work under the programme at minimum agricultural wages prescribed in their state. They need to register with their village panchayat or at the block level and are provided job cards. Once a job card has been issued to an adult, she can demand for work. She is guaranteed by the Act to be provided work within 15 days of her such demand. In case of not being employed within 15 days after her demand for work, she will be entitled to “unemployment allowance” which is prescribed to be a quarter of the wages for the first month and a half of the wages for the remaining period of that financial year. The Act also provides for travelling allowance if she has to travel more than five km from her residence for work. She is also entitled to compensation if payment of her wages is delayed beyond 15 days.

5 Self-employment generation programme [Swarna Jayanti Gram Swarozgar Yojana (SGSY)]

Swarnjayanti Gram Swarozgar Yojana (SGSY) was initiated in 1999 for generating self-employment among the BPL households in the rural areas of the country by restructuring the then existing programmes including the
Integrated Rural Development Programme (IRDP). An important aspect of the programme is to establish the SHGs and disburse subsidised credit to the people through the SHGs for establishing micro enterprises, in addition to individual lending. The government of India contributes 75% of the total funds required for SGSY, while the remaining amount of the funds is provided by the concerned state governments.

6 Group insurance programmes [Aam Aadami Bima Yojana (AABY) and Janashree Bima Yojana (JBY)]

Government of India initiated a group insurance programme, named Aam Aadmi Bima Yojana (AABY-Common People’s Insurance Scheme) in 2007 to provide the landless agricultural labourers in the age group of 18-59 years with life and disability cover. According to the scheme, the family of the insurant is entitled to receive INR 75,000 on death and permanent disability to her/him caused by an accident. A partial disability due to an accident entitles the family an amount of INR 37,500. In case of natural death of the insurant, the family receives INR 30,000. Annual insurance premium of INR 200 per insurant is to be shared equally between the government of India and the state governments. The scheme also provides for a free add-on scholarship for the children of the beneficiaries of AABY at the rate of INR 100 per month for maximum two children studying from class 9 to class 12. Another group insurance scheme with similar benefits, named Janashree Bima Yojana (JBY- People’s Insurance Scheme), was also initiated for the BPL men/women in the age group of 18-59 years in the year 2000. The premium amount in this case is shared equally between the government of India and the insurant. The government of India has created Social Security Fund to finance such schemes. Both AABY and JBY are underwritten by Life Insurance Corporation (LIC) of India. Both are group insurance schemes and a group consisting of not less than 25 members otherwise eligible for any scheme can enrol for that scheme.

7 Total Sanitation Campaign (TSC)

TSC was initiated in the year 1999 by restructuring the earlier Central Rural Sanitation Programme and ‘making it demand driven and people centred’. Overarching aim of the campaign is to eradicate the practice of open defecation in the rural areas. One of the major activities of the campaign is to ensure that all households in the villages have sanitary latrines. The Campaign incentivises the BPL households for constructing the latrines under its component of the “construction of Individual Household Latrines (IHHLs)”. The amount of incentive provided by the government of India towards construction of IHHLs was raised from INR 900 to 1,500 with effect from 21 October 2008. The Campaign also prescribes for a minimum incentive of INR 500 by the concerned state governments to each recipient. The BPL households are required to undertake the construction of latrines themselves and claim for the incentive amount after completion of the construction. It has also been made mandatory to provide a latrine under the TSC along with each IAY subsidised house.

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72 IRDP was a self-employment programme for the rural poor households with three other sub programmes, viz., the programme for Training for Rural Youth for Self-employment (TRYSEM), that for Development of Women and Children in Rural Areas (DWCRA) and the programme for distribution of Tool kits.

73 Official website of the Department of Water and Sanitation, Ministry of Rural Development, Government of India: http://www.nic.in/tsc_index.htm
Appendix 6

Leveraging the network capital of post offices

There has been a rich tradition of leveraging the postal network by different (mostly government) agencies in order to further their objectives, especially while making an effort to reach a large number of people in the country. The main reason for such arrangements is that the postal system of India is the only all-India organisation which reaches every nook and corner of country with its large network of offices and agencies.

Following is an indicative list of utilisation of the postal network by various organisations:

**Sale of quinine:** Due to its geographical location and the climatic conditions, a vast majority of Indian population has been contracting malaria, which is considered to be one of the worst enemies of tropical and sub-tropical countries. In the late nineteenth and early twentieth centuries, the challenge to prevent the disease was formidable as the backward areas of the country did not have any medical facilities. A need was therefore felt to find an agency to distribute quinine, the only known remedy to prevent malaria at that time. Even as far back as in 1892, the Department Posts, which had nearly 10,000 offices spread throughout India, was considered to be the most appropriate agency for distribution of this valuable drug. Prior to the Second World War, a very considerable amount of quinine reached people in remote places of the country through this arrangement. During the Second World War, however, the shortage of quinine and the discovery of new substitutes for the drug reduced the quantities of quinine sold through the postal agency. Later on due to spread of medical facilities the sale of quinine through post offices was discontinued.

**Collection of salt revenue:** Duty was imposed on the purchase of salt by the merchants and others under the ‘through traffic system’ by the salt department. The salt department requested the post offices to collect the duty, which was undertaken in 1890 in North West Provinces, Oudh and Punjab. It was later extended to Central Provinces and Rajputana in 1892.

**Military pensions:** In 1890, the post office undertook payment of pension and other dues to the Indian military pensioners in the area served by the Punjab postal circle. The payments included pensions, family pensions, special allowances attached to pensions, and ‘jangi inaams’ for special distinguished war services. The service was later expanded throughout India.

**Radio licenses:** Post Offices were entrusted a task of collection of Broadcast Receiver Licence Fees on behalf of the ministry of Information and Broadcasting with effect from 15 August 1924. Post offices continued to collect the licence fees until the provision to collect such fees was abolished in the 1970s.

**Revenue stamps:** Under the Indian Stamps Act, a small charge is levied on all payments above a certain limit. The charge is realized through the sale of revenue stamps, which are affixed on the receipts of such payments. The postal department was called upon to undertake sale of revenue stamps on behalf of the finance department in 1934. The sale of revenue stamps still continues at the post offices.

**Tobacco excise licenses:** On 1 March 1943, the postal department started collecting the fee for tobacco excise licenses on behalf of the finance department.

**Central excise revenue stamps:** Finance department also requested the postal department to undertake collection of levy on a number of goods such as coffee, betel nuts, tea, steel ingots, silver, sugar, vegetable products, tyres, mechanical lighters, matches, kerosene and motor spirit. The work was undertaken on 1 April 1944.

**Tuberculosis (T.B.) and health seals:** Wide reach of the postal organization was also utilized to collect voluntary contributions for the two national causes. In 1950, postal department agreed to sell the T.B. seals on behalf of Tuberculosis Association of India, while in 1951, health seals were put up on sale at the post offices in the aid of Health Minister’s fund.

**Distribution of income tax return forms:** Finance Ministry approached the postal department to distribute income tax return forms free of cost to members of public. The scheme was undertaken through the selected post offices in large cities in 1967. During 1968-69, the scheme was extended to all the post offices.

**Central recruitment fee stamps:** Central recruitment fee stamps were introduced from 23 December 1986 to meet the heavy demands of Indian postal orders in lieu of payment of fees towards the recruitment examinations.
conducted by the Union Public Service Commission/Staff Selection Commission. The stamps are sold through the selected post offices in urban areas and are in high demand.

**Sale of passport application forms**: Post offices undertook sale of passport application forms from 1 November 1992 to ensure easy availability of such forms. Presently the post offices also scrutinize and accept filled up application forms to transmit them to the passport offices in addition to the sale of passport forms. Post offices also sold Passport fee stamps which got discontinued in July 1994.

**Mobile Public Call Office (PCO)**: At the request of the state-owned telecom company, Bharat Sanchar Nigam Limited (BSNL), the post office employees in rural areas are providing mobile PCO facility at the doorstep of the customers in rural areas, using the Wireless in Local Loop (WLL) Technology. The service, known as Gramin Sanchar Seva is made available on a revenue sharing arrangement between BSNL and India Post (Annual Report 2007).
The financial services-basket of India Post

According to Rural Finance Access Survey (RFAS), (World Bank 2004, cited Basu and Srivastav 2005), India Post is the largest financial service delivery network in India. The network is currently offering remittance (including money orders and postal orders), savings, and life insurance services, which evolved as responses to different social and economic situations in India in the long history of India Post.

Money Orders (MOs)

Sending a money order is one of the most common methods of remitting money from one place to another in India. According to the official website of India Post, ‘a money order is an order issued by the Post Office for the payment of a sum of money to the person whose name the money order is sent through the agency of the Post Office’74. In the early years of British rule in India, remittances were managed by the government treasuries through the bills of exchange which remained current for twelve months. As there were only 283 treasuries in the whole country, this mode of remittances could not be popularized. In 1878, the Director General of the Post Office proposed to the government to take over the business of remittances from the treasuries. He argued that ‘with small number of treasuries and the trouble involved in reaching one of these every time a money order had to be sent or paid, the existing system could never become popular. The Post Office was able to provide 5500 offices of issue and payment, and the number of these would be always increasing’ (cited Clarke 1920: 77). The proposal was accepted and the Post Office took over the management of the issue and payment of remittances, called money orders, on 1 January 1880. This measure resulted in quadrupling of the business of money orders in a matter of few months and paved a way for its huge popularity among the common people. The service received a major value-addition in the shape of delivery at the doorsteps of the payees in 1886, which was possible because of the reach of the post offices to every house in their jurisdiction.

Government of India tried to leverage on the reach and popularity of money order service for collecting land revenue in the Benares division of the North-West Province in 1884, which was an immediate success. Money order system was also employed to transmit rents by tenants to landlords in the North-West Provinces in March 1886. Both the arrangements were extended to other provinces as they were found extremely beneficial for the common people. Anand (1954: 21) mentions:

> The introduction of money order, and its use for revenue and rent transmission, saved the public the harassment of undertaking long journey to pay these charges in person. At the same time it made it possible for them to specify the particulars of debts or of the charges, relating to which the money orders were sent. The remittances of money through the Post Office constituted evidence of payment and effectively precluded fraudulent entries being made in the registers of the landlords or their agents. Another advantage which the cultivators and others gained through payment ‘in absentia’, by money order, was that it freed them from the obligation to observe the prevailing custom of nazara or giving a present to the creditors, at the time of paying back the principal or the interest.

According to Sheel (1984: 30), money received personally from the poor peasants by the landlords and the usurers was never recorded fully in the books whether it was received as the repayment of loans, revenue or interest. By sending money orders, the sender would get receipt of the total payment. Clarke (1920: 79) describes the importance of money orders in his time:

> Probably in no country in the world is the poor man so dependent upon the post office for the transmission of money as in India….The reason undoubtedly is the facility with which payment is made and the absolute confidence which the Indian villager places in the Post Office…It is not too much to say that the money order system of India is part and parcel of the life of the people… They have in that magic slip of paper, the money order acknowledgement, what they never had before, that which no number of lying witness can disprove, namely, an indisputable proof of payment.

Anand (1954: 115) agrees with him even after 34 years, and in Independent India. He maintains:

> Banking facilities are still in their infancy in our country and the vast majority of the population do not have the banking habit….Millions of rupees have to be sent in the shape of small sums. The money order system provides the average Indian a sure and cheap means of effecting transfer of money. It is consequently woven with the life of almost everyone in India and more particularly those in the lowest income groups.

Recently, there have been attempts by the other departments of the central government as well as state governments to leverage on the outreach of the post offices and the money order service to reach out to their clients. As an example, the Social welfare Ministry of the Government of India entrusted the work of disbursing financial assistance to the elderly, destitute and to expectant mothers under its National Social Assistance Programme through the money orders in 1997 (Annual report 1997-98: 14). Similarly, two of the largest

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recruitment organisations for government and public sector, viz., the Union Public Service commission and staff selection Commission approached India Post to help them in collecting and remitting the fees for the recruitment examinations conducted by them. In response India Post introduced Central Recruitment Fee (CRF) Stamps to be sold through the post offices. ‘This has motivated the UPSC to switch over completely to CRF Stamps as the means of accepting fees for its various recruitment programmes (Annual report 1998: 14).’

The traffic of money order service has however been declining after 1984-85 in spite of India’s economic growth and the resultant increase in demand for the remittance services. There are now various cheaper and more efficient alternatives available for the money transfer such as bank drafts and the electronic money transfers, especially after expansion of banking services. However, the money order service still remains relevant for a large number of people in rural areas. It is particularly useful for the migrant labourers. The service however needs to be redesigned and made flexible by studying the needs of different sections of the population to address the needs of greater number of people in a more effective way.

Post offices also offer the foreign money order service for incoming remittances from 27 countries and two-way remittances with Nepal and Bhutan, although there are few takers of the service as the delivery takes a long time and the rates of commission are high.

Postal Orders
Immediately after introduction of the money order service, it was realized that the service did not cater to the needs for small remittances to and from Great Britain for the British people stationed in India. In order to address such needs the Post Office Department introduced British Postal Orders (BPOs) on October 1, 1884. A postal order is an instrument which can be purchased from a post office for fixed denominations on payment of amount of denomination and commission, and can be encashed in any other post office for the amount of denomination within six months. Later, in response to the similar needs from the people within the country, Indian Postal Orders (IPOs) were introduced in the year 1935. While BPOs were liable to be encashed at any post office in all the British colonies including those in Great Britain, the IPOs could only be encashed in the Indian post offices (Sheel 1984: 39).

IPOs became immensely popular immediately after their inception, and the business kept growing at a fast pace until 1980s, after which it almost stagnated due to greater availability of alternatives such as bank drafts and electronic money transfers.

Savings Bank
The first Government Savings Banks were opened at the three Presidency towns of Calcutta, Madras and Bombay in 1833, 1834, and 1835 respectively. These Banks were intended for the investment of the savings, the returns of the deposits with interest being guaranteed by the Government. The Post Office got its first savings banks in 1882 in all parts of India excepting at Calcutta, Bombay and the headquarter stations of Madras. As a result, the number of savings banks in the country increased from 197 to 4243.

Post Office Savings Bank (POSB) was meant to provide assured safety and liquidity of funds to the depositors belonging to poor and lower middle economic classes. Without organized banking facilities, the people with small amounts of money never felt safe. They deposited their money either with a Mahajan or hoarded in the form of gold or silver ornaments, which was always risky as in those days scarcity of food often led to thefts in the lean income months (Anand 1954: 23). Moreover, value of the savings hoarded in the form of gold and silver was liable to deteriorate due to the fluctuating economic conditions. British Government of India also needed money for economic development of the country as well as for its own military and administrative needs. ‘These two factors made the Government think of the savings bank as the most convenient method of harnessing the small savings to its requirements of funds (Anand 1954: 102).’ The landlords and moneylenders during those times ran their own banks, transacting majority of their business orally and very often defrauding the people. The POSB provided alternative savings mechanisms to their clients while also dynamising savings for their gainful use (Sheel 1984: 33).

POSB also provided means to the government to mobilise savings for specific purposes in the times of need. On 1 April 1917, the government of India introduced war loan bonds and five year cash certificates to finance its war efforts. In the first year only, more than INR 100 million were collected which helped the British war machine (Sheel 1984: 37). Afterwards, the British government as well as the governments of independent India issued various bonds and certificates, such as Social Security Certificates, National Development Bonds, Indira Vikas Patra (Development Certificates named after the late Prime Minister Indira Gandhi), Kisan Vikas Patra (Farmers Development Certificates), and National Savings Certificates, to mobilize funds for various issues of national
importance. Government of India also launched a savings scheme on 1 October 1993, named Mahila Samriddhi Yojana (Women’s Prosperity Scheme) aimed at economic empowerment of rural women, carrying an annual interest incentive @ 25% (subject to a maximum amount of INR 75) per annum.

According to the Eighth Five Year Plan document (1992), the POSB is ‘the most important means of mobilizing household savings especially in rural areas as it accounts for 53% of household savings. The Post Office has played an extremely important role in developing the economic infrastructure of the country (8th five year plan, planning commission of India 1992: 265).’ Presently, the ‘Post Office Savings Bank is the largest Bank in India in terms of network, accounts and annual deposits (Annual Report 2007: 3).’

Postal Life Insurance
Before 1880s, only British insurance companies were operating in India, which found insuring the lives of ‘natives’, other than those on high positions, risky. Although lack of insurance affected all sections of the society; the Government of India was particularly moved by the plight of the families of small postal officials who died while in service (Anand 1954: 110). It therefore decided to introduce a life insurance scheme, called Postal Life Insurance (PLI), for the Posts and Telegraphs employees in 1883. The scheme was extended in 1898 to all employees in civil government employment, including those employed in the Public Works Department and in the Military Accounts Offices. During the same year, endowment insurance was also made available in addition to the whole life insurance under the PLI scheme. Presently, the scheme is available to employees of central and state governments, armed forces personnel, employees of the local bodies, government aided educational institutions, universities, nationalized banks, many autonomous and financial institutions of the government of India, and central and state public undertakings.

In 1995, India Post decided to utilise its knowledge and experience in managing and delivering life insurance as also its outreach in rural areas to provide much-needed life insurance cover to the rural population. The department therefore launched rural PLI (RPLI) on 24 March 1995, which made all the people living in rural areas eligible to obtain life insurance through the post offices.

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### Revenue, expenditure and deficit of India Post (in million INR)

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**Source:** Annual Reports of India Post (various years)
Appendix 9

Application of microfinance and commercial banking to postal networks: Lessons from Brazil and the Netherlands

There have been two initiatives internationally, in Brazil and in the Netherlands, where banks tried to increase their outreach by leveraging the postal networks. In Brazil, Banco Bradesco, a private bank, successfully partnered with Brazil Post to create Banco Postal for offering financial services to the people, unserved by any formal financial system. Banco Postal has been able to cut costs and increase accessibility by providing its banking services at 5460 post offices around the country. In 2002, before Banco Postal was launched, as many as 1750 Brazilian municipalities lacked banking services. By the year 2007, Banco Postal has brought banking to 1675 of these municipalities (Bradesco 2007). According to Littlefield et al. (2003), 'operating in one of the poorest regions of Brazil with very little donor support, (Banco Postal) became the second largest microfinance operation in Latin America'. Wheatly (2005) writes,

For Brazil's banks, it's a chance to cast a wide net at little expense. The overhead is minimal, since there are no bank branches. And the cost of capital? Well, it's close to zero….The biggest by far of the new people's banks is Banco Postal, which operates out of post offices around the country and boasts of 2.8 million accounts.

In the Banco Postal model, the post offices work as business facilitators for a bank and receive commission from the bank in return. The Post Bank model of Netherlands on the other hand postulates a kind of a merger of the post offices with the bank/banks.

In 1986, the Postal Giro Service and the National Savings Bank of Netherlands were demerged from the state-owned Netherlands Postal and Telecommunications Services (PTT) to form a new company called Postbank NV. On 1 January, 1989, the PTT moved into the private sector as NV Koninklijke PTT Nederland (KPN), with TPG Post BV and PTT Telecom BV as its principal operating companies (Press Pack - TNT Post online). In the same year, Nederlandsche Middenstandsbank (NMB, Netherlands bank for small to medium size enterprises), a commercial bank, merged with the Postbank but the two organisations retained their branch networks. The Postbank had traditionally invested in the public debt and was looking to enter the more lucrative market for business loans, while NMB was interested in the Postbank’s large share of the market for savings deposits. Postbank could make use of NMB’s expertise in a number of fields, including stock investment. Its investment fund launched in 1990 succeeded in attracting many people who had never invested in stocks before. In 1991, NMB Postbank merged with the Nationale Nederlanden insurance group of ING (Internationale Nederlanden Groep) (’t Hart et al. 1997: 175-76).

The merger seems to have benefited not only the bank and the post offices but also the people at large of the Netherlands, which is reflected by the fact that presently ‘more than half of the Dutch population holds a personal account with the Postbank…. Postbank has a dominating share of the amount of national giro payment transactions, with simple but efficient service as its credo’ (Netherlands: General information undated). The Postbank proved to be commercially very successful. Extent of its success can be gauged from the fact that in 1993, it took over 50 per cent stakes in running the post office network (its original parent company) in Netherlands-the remaining 50 per cent remaining with the PTT Post through an independent company called Postkantoren BV (Press Pack - TNT Post undated).

The mechanisms described above cannot be replicated in India due to significant differences in the working of India Post with that of Brazil Post and Dutch Post. Their success however does provide sufficient indication that postal networks may be successfully employed elsewhere too, to provide financial services to the poor and to those inhabiting remote and backward areas.
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