MICROFINANCE AND DEVELOPMENT IN EMERGING ECONOMIES

An Alternative Financial Model for Advancing the SDGs

NISHI MALHOTRA

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emerald
PUBLISHING

United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2023

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-83753-827-0 (Print)
ISBN: 978-1-83753-826-3 (Online)
ISBN: 978-1-83753-828-7 (Epub)

I dedicate this book to my parents, sister and the Indian Armed forces. Above all I thank the almighty God and our priest for his blessings.

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Table of Contents

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List of Figures and Tables

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List of Abbreviations

APES	Aadhaar Enabled Payment System
APMC	Agricultural Produce Market Committee
BHIM	Bharat Interface for Money
CBLO	Collateralized Borrowing and Lending Obligation
CMC	Computer Maintenance Corporation
CMIE	Centre for Monitoring Indian Economy
CPI	Consumer Price Index
CSC	Common Service Centres
DAY	Deendayal Antyodaya Yojana
FINTECH	Financial Technology
FPO	Follow on Public Offer
ICT	Information and Communications Technology
ILO	International Labour Organization
KYC	Know Your Customer
LPG	Liquefied Petroleum Gas
MFI	Microfinance Institution
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NACH	National Automated Clearing House
NEFT	National Electronic Funds Transfer
NFS	National Financial Switch
NHM	National Health Mission
NICS	National Institute for Career Service
NOFN	National Optical Fibre Network
NPCI	National Payments Corporation of India
NRLM	National Rural Livelihood Mission
PAC	Producer Agricultural Companies

RBI	Return on Investment
RBV	Resource Based View
ROI	Return on Investment
RUPAY	Rupee and Payment
SBLP	Self Help Group Bank Linkage Programme
SDG	Sustainable Development Goal
SEBI	Securities and Exchange Board of India
SHG	Self Help Group
SSDG	State Portal and State Service Delivery Gateway
SWAN	State Wide Area Network
TAM	Technology Acceptance Model
UID	Unique Identity Number
UN	United Nation
UNDP	United Nation Development Programme
VRIO	Value, Rarity, Imitability and Organization

About the Author

Dr. Nishi Malhotra has completed her PhD from Indian Institute of Management, Kozhikode in Finance, Accounting and Control in the domain of the Analysis of Self-help Group Bank Linkage programme. She has completed her MBA (full time) from MDI Gurgaon (Management Development Institute, Gurgaon) and BCOM (Hons) from Sri Ram College of Commerce, Delhi University. She has qualified for UGC NET in Commerce and has authored more than 16 research papers across various ABDC – B, and C category journals. She has also authored papers in the *Journal of Human Values*, *Q1* and Scopus-listed journals. She is publishing a book with Emerald Publishing in the domain of Microfinance and published two academic reference books on income tax laws and cost accounting. She has been a topper throughout her school from Class II till Class XII.

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Preface

This book talks about the issues developing economies face in achieving sustainable development goals of poverty reduction. Within the developmental paradigm of poverty reduction through microfinance, this book highlights the temporal shift in policy framework prescribed by the United Nations and World Bank to tackle the issue of poverty, with customisation for developing nations. This book highlights the uniqueness of the microfinance programme adopted by India in terms of the blend of democratic participation of the poor within the framework of self-reliance through the generation of profits. Various microfinancing initiatives aimed at promoting self-reliance through financial literacy, entrepreneurship, skill development and financial discipline enforced through monitoring and supervision are at the forefront of the success of these initiatives. This book, for the first time, discusses in detail the uniqueness of the innovative welfare schemes adopted by the Indian Government.

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Acknowledgement

I dedicate this book to my parents; without their help, I would not have been able to publish this book. I want to thank the almighty for all the encouragement. Above all, I would like to thank the Government of India and the state of Kerala. Thanks to the Emerald Publishing team for making this possible. I am grateful for the outstanding support from Emerald. In particular, I would like to thank Lisa Goodrum – Commissioning Editor – Responsible Management.

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Chapter 1

Poverty in Emerging Economies

Handicraft Industry in Nepal – Paradigms of Poverty

> Lasting peace cannot be achieved unless large population groups find ways to break out of poverty. Across cultures and civilizations, Yunus and Grameen Bank have shown that even the poorest of the poor can work to bring about their development. *The Noble Committee*

Microfinance and Development in Emerging Economies, 1–21

Published under exclusive licence by Emerald Publishing Limited
doi:10.1108/978-1-83753-826-320231001

Social Perspective

In Nepal, within the hinterlands and hamlets, quietly nestled in the Himalayas, the self-help groups comprised the women members who weave pashmina shawls, Palpali Dhaka products that include handkerchiefs, jewellery, handmade paper products, wood craft, singing bowls and khukuri knives, glass beads and hemp products. With the digitisation of the villages in Nepal, the level of commerce has increased to a large extent. This has led to the transformation of Nepalese society into a knowledge society. This has led to a reduction in poverty. In Nepal, approximately 50% of the population lives below the poverty line, and most do not have access to basic amenities, including education, clean drinking water, sanitation, etc. It is a small kingdom in which the monarchy has a special place, and the economy mainly depends on agriculture, tourism and other allied activities. Due to a subsistence economy, most families depend on agriculture for survival. Low education is the main reason for poverty among rural citizens. Besides, a high poverty level exists among Nepal's downtrodden castes and creeds. This includes the caste such as Sarkai, Damai and Kami. The story of poverty is extremely high among people from lower castes, downtrodden religions and sects leading to caste discrimination and gross inequalities. This marginalisation leads to social exclusion as the poor people from the lower caste cannot access the wells to fetch water. Thus, the problem of poverty is dependent on root causes which might be demographics. Besides individual factors, contextual factors also lead to poverty. These people do not have rights, including land ownership and entitlement to possess various assets. Poverty is a chronic problem that fraught the economic growth in the villages of Nepal.

Introduction

Globally, 1.7 billion people live below the poverty line. These people cannot access economic resources and collateral to obtain credit. Moreover, the banks do not have any information about the creditworthiness of the poor, which leads to the problem of underdevelopment globally. There are multiple definitions of poverty, but the most accepted explanation is in terms of per-day expenditure on consumption by the household. The World Bank has defined poverty as per capita expenditure of less than $1.90 to $3.10 per day. Further, the statistics and earlier research propagate that poverty is more prevalent among households with three or more children and in rural areas and regions. Extreme poverty is the root cause of all the social problems and ills. It is imperative to eradicate poverty to achieve economic growth and development objectives. Developing nations worldwide have adopted the sustainable development goal of poverty reduction. Approximately 193 countries have adopted the sustainable development framework, including 169 different Global targets, including poverty reduction. In 1901, for the first time, Dadabhai Naroji estimated poverty in India based on the cost of subsistence. India adopted the poverty line estimation based on the recommendations of the National Planning Committee, based on the living standard followed by the Bombay Plan 1944. In the past, the task of estimating poverty was given to various committees, which include the Dandekar and Rath in 1971, the Y.K. Alagh task force in 1979, and the working group of 1962 in the estimation of poverty. Recently, this task has been given to Lakdawala report in 1993, and Rangarajan Committee report in 2014. India has adopted a multidimensional approach to measuring poverty, which includes various indicators such as nutrition, child-adolescent mortality, schooling, attendance, cooking gas, electricity, housing, ownership of assets, bank accounts, education, health, nutrition, access to sanitation, and clean drinking water. By 2030, India and other emerging nations of the world will have adopted the vision of zero poverty. But with the existing challenges and new emerging social challenges, the achievement of this goal looks like a distant dream. With the advent of COVID-19, the gains made in reducing poverty in the last decade have been lost. Recent research and estimates suggest that approximately 68 million to 130 million people might be pushed into the vicious circle of poverty (Wang & Zhou, 2020). The current rate of global poverty hovers around roughly 9.2%, and with the existing scenario, achieving a poverty rate of 3% looks like a distant goal. Poverty is a multidimensional and complex problem with various causes, such as inadequate schooling, low income, and low life expectancy, with gender and regional disparities. Poverty is often defined as a market failure when the market's demand and supply forces cannot achieve the equitable distribution of resources. Many books and literature describe poverty as a structural failure. ILO (International Labour Organisation) defines 'social injustice' as the root cause of the problem of poverty. This social injustice further leads to disharmony and violence in society. The World Bank has laid down two goals. The first goal is eradicating poverty, and the second is achieving shared prosperity. Approximately 15.09% of the world's poor living in abject poverty are staying in the developing nations of South East Asia. Many countries in these developing nations have adopted the goal of poverty reduction through financial inclusion and microfinancing (Saha & Qin, 2023). For the study, it is hypothesised that poverty essentially implies a lack of access to resources due to a lack of capabilities, including access to financial resources. Thus, poverty is defined as the level of financial exclusion and the inability to access financial resources due to the lack of collateral and information about the creditworthiness of the poor. The SDG (Sustainable Development Goal) includes a target indicator as 1.2, which defines poverty as reducing at least by half the proportion of women, men and children of all ages who live below the poverty level.

Definition of Poverty

Poverty has been defined as the feeling of deprivation and lack of well-being among people. It is often described as members lacking resources and capabilities to meet their consumption needs. The resources and capabilities are usually defined as members not having enough income or resources to meet their daily consumption needs. Often the starting point to measure and monitor poverty is to estimate the income earned or economic resources possessed by the members of a household. The World Bank has given a benchmark of $1.90 to $3.10 per day as the threshold to measure poverty levels among community members (World Bank, 1990a, 2001, 2015, 2017a, 2017b). However, it includes various other dimensions, such as health, education, and consumption. The Indian Government has adopted the sustainable development goal of poverty reduction through financial inclusion and women empowerment. As per Amartya Sen (1980), poverty arises when people lack key capabilities in terms of adequate education, income and employment to meet their needs. This deprivation further leads to insecurity and low self-confidence, and self-esteem. In this book, we have adopted a consumption benchmark of $3.10 per day as the benchmark indicator of poverty. Entitlement rights and the right to own property and resources form the genesis of the problem of poverty. Poor people are often socially excluded and are deprived of the right to hold and exchange things. This is often referred to as exchange entitlements (Sen & Foster, 1997). The people below the poverty line do not have the right to exchange resources and items. Not only do they lack resources and endowments, but they are also excluded from exchanging things and accessing financial resources in the form of credit and debt. Thus, per the famous economist Amartya Sen, it becomes essential to analyse the ownership of resources and the rights to exchange entitlements and resources (UNDP, 1991). Human Development Report defined poverty as the ability to avail and make choices. It includes the ability to live a life of dignity. Freedom from poverty is often described as the ability to live a long and healthy life. It is referred to as the ability to exercise political choices and political freedom with a guarantee of human rights. United Nations Economics and Social Council (1988) has defined poverty as freedom from insecurities, deprivations and exclusions. Defining poverty and designing policy interventions to combat poverty is extremely important. Most of the earlier research cites that poor people do not have access to financial services and do not own any property or physical assets to access financial services. They do not have any collateral which can enable them to access credit.

Moreover, banks and financial institutions do not have any information about the creditworthiness of poor people. This leads to the financial exclusion of the poor, which further leads to the inability to avail of suitable employment opportunities. Fig. 1 provides a basis for the classification of various causes of

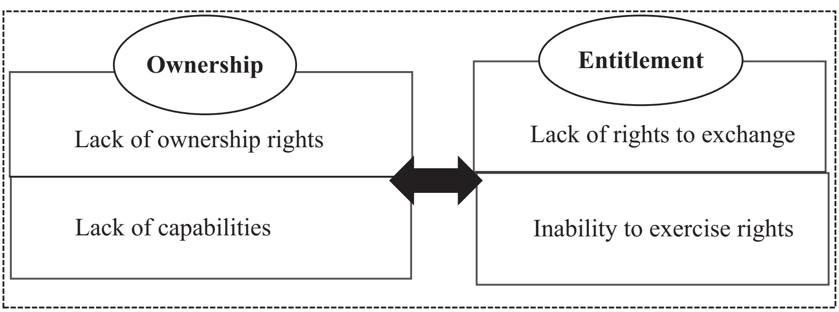

Fig. 1. Reasons for Poverty. *Source:* By the Author.

poverty. Poverty could be either due to the lack of ownership of physical assets or due to the lack of ability to exercise the rights or entitlement, leading to deprivation.

Social exclusion refers to the exclusion of process and outcome. In the process, social exclusion refers to the exclusion of the members from participating in social, economic, political and cultural activities. Amartya Sen defined social exclusion as the denial of freedoms and the inability of persons to take advantage of opportunities because of policy initiatives. Thus, broadly defining poverty, the background factors could be constitutive that are inherently bad, such as social exclusion, caste discrimination, racial discrimination and policy initiatives that abstain specific individuals from enjoying freedom. Or the factors could be instrumental, which are not inherently bad but can lead to consequences such as lack of access to credit markets.

Poverty Reduction and Women Empowerment

Poverty reduction is one of the sustainable development goals, and gender inequality is one of the primary reasons for the increasing poverty levels in the nation. Various studies highlight that households where women have their entrepreneurship ventures tend to have higher income and lower poverty levels. Similarly, many other factors impact the level of poverty. Poverty is a multidimensional concept and a puzzle that is influenced by and leads to many other problems, such as income inequality, unemployment, vulnerability to disasters, poor health, climate change and lack of education. This view mainly attributes poverty to various macroeconomic factors.

Where Is the Bedrock of Poverty?

Is gender inequality the bedrock and the key to achieving sustainable development? It is imperative to improve the participation of women in day-to-day decision-making. As far as the financial inclusion of the poor is concerned, there is a presence of gender inequalities. From the literature analysis, it becomes apparent that approximately 40% of poor women do not have any access to financial services. And 20% of the female population do not have any access to bank accounts. It is imperative to make women aware of their fundamental rights. There is a need to develop gender-friendly goals to develop smart products and services that cater to the unique needs of women. Information asymmetry is one of the major challenges faced by women in India. Women in rural India do not have any information about the financial products and services available in the market. Organisations must undertake capacity-building initiatives such as training and skill-building initiatives to facilitate women's empowerment. In different parts of the nation, the women members face difficulty accessing financial services. In most households, the women members report crimes inflicted upon them as domestic violence or lack of autonomy. Women generally do not have access to financial resources and depend on their parents, households, friends and informal networks to access finances and funds. There is a need to make changes in the regulations and laws and make them women-friendly. In most cases, the women depend on their husbands to access money and economic resources. The members of big traditional families are generally more inclined to have a male child than a female child. Over time, women in India are repeatedly being afflicted with various crimes such as poverty, rape, and attempts to demand dowry. The major reason behind these increasing social problems is the presence of disparities and the presence of a patriarchal system of governance. In patriarchal societies, there is a need to promote the equitable distribution of resources by providing them access to equitable opportunities. The Indian Government has undertaken various schemes and initiatives, including Government transfers and social welfare schemes such as the Sukanya Smridhi scheme to promote the empowerment of the girl child and promote the holistic development of women. Women need to be empowered by promoting autonomy in financial planning and decision-making. Within the social context of a village, the women members lack access to any physical collateral, which prevents them from accessing formal credit. Moreover, the extant literature highlights that women with higher levels of financial literacy can better manage their households and stand up for women's rights in the family. They can better fight the menace of domestic violence and promote harmony among family members. Attaining gender equality is one of the sustainable development goals, and gender equality further leads to economic growth. Various studies establish that a higher education level among women leads to lower inequalities and poverty. Women's economic and social independence leads to the reduction of economic inequality and higher employment opportunities. One of the major reasons for poverty among the people at the lower levels is the lack of women's empowerment. The levels of social exclusion are extremely high among the women members due to the lower level of education and various forms of behavioural and cultural biases. Various strands of literature define women's empowerment as gaining control over their lives by accessing choices in the strategic context. In this regard, it is essential to understand how access to financial services impacts women's lives at the bottom of the pyramid. One such initiative is the unique group lending initiative started by NABARD in 1992. This initiative provides access to financial services to the poor people at the bottom of the pyramid. In accessing the loans from the self-help group, the members need not have access to the physical collateral or any information about the poor. A homogenous set of people from a common background or geography generally forms these groups. These members already have information about each other and thus provide a guarantee. Through social capital, the poor members of the group get access to financial services in the form of loans and credit. Thus, the self-help groups ensure access to financial services for women in the unorganised sector. Individual-level factors impact poverty, including education, income, access to financial resources, ownership of assets, family demographics and psychographics. Similarly, macroeconomic factors such as climate change, economic resources, governance and availability of clean water and sanitation impact poverty. Besides the individual-level factors, various other contextual factors, such as the level of crimes, climate change, environmental quality and socio-economic infrastructure, impact the country's poverty levels. The existing studies have cited various elements that are important for fighting poverty. These factors include education and training, resilience to climate change, economic resources and basic needs, financial support, governance and social support.

Poverty Due to Factors of Constitutive Relevance

Impact of Socio-Cultural Factors

Social exclusion is a mechanism or process by which specific communities and people are excluded and disadvantaged due to the discrimination they face in terms of gender, race, religion, caste, age, etc. In a society, the rules govern the behaviour of the community members. Through a process of negotiation, these rules and laws become customs. These customs govern the behaviour of individuals and give rise to the social attitudes and values in a particular society. The state then enforces these laws in the form of constitutional mandates. However, in some cases, the loopholes in the existing laws lead to discrimination and exclusion of certain groups. A straightforward example of social exclusion is discrimination among the members of society based on their place of domicile or birth. There is no mechanism to control the exploitation of the discriminated group. Poverty is a complex problem with multiple dimensions. Various socio-cultural factors such as religion, custom, family background, norms and values impact the poverty level in emerging economies. The social environment of a person has a profound impact on the economic prosperity and wellness of a person. Besides, the economic definition of poverty means an individual living at less than $1.90 to $3 a day. But poverty can also be defined as societal poverty. Societal poverty implies the ill-treatment of an individual at the hands of state agencies and society. The primary research highlights that people who lack access to financial resources are at risk of cultural exclusion. India is a diverse nation with people from diverse social backgrounds living together. Various negative cultural factors, such as prevalent customs, traditions and casteism, lead to vulnerability and increased poverty among the people at the bottom of the pyramid. Looking through the lens of social stratification of society, poverty is most prevalent among the economically disadvantaged sections of society, including people from scheduled castes and tribes. Minority communities are excluded from participation in economic activities and social activities. This discrimination and social exclusion lead to the problem of the vicious trap of poverty. Social exclusion leads to the denial of fundamental human rights among the members of society. Through the lens of entitlement theory, poor people are excluded, marginalised and relegated from participation in social activities. Social exclusion leads to exclusion from the right to life of dignity. It also leads to various discriminatory forces such as racism, casteism and unenforced civil rights. Different authors propagate that the lack of distributional rights is at the heart of the prevalence of poverty. India is a diverse country with multiple cultures and customs. Poverty is the cause and consequence of social exclusion. Customs have a significant role in impacting the economic and social well-being of the nation's diaspora.

Thus, though poverty in developing countries such as India has declined in absolute terms, in cultural terms, or in terms of exclusion, poverty has increased. This is adequately reflected in the increasing social crimes like dowry deaths, suicides due to higher debt levels, and social ostracisation. Social inequalities in society have increased manifold. Greek historian Aristotle has defined poverty as the inability to undertake significant economic activities. Further, Adam Smith has described poverty as the inability to face the public without shame. Most of the seminal literature on poverty has highlighted the relevance of customs and traditions in determining the economic status of the members of society. Thus, practices have a significant role in determining a country's economic status.

Within the Indian constitution, *the fundamental right to equality* is enshrined as a basic right, and theoretically, the caste system has been completely abolished. However, the ground reality is very different. Until recently, the caste system classified millions of people as untouchables and Harijans as outcastes. The people from the lower classes are denied work and access to basic amenities such as drinking water and shops, leading to economic inequalities and extenuating poverty. In a developing economy, within the theoretical framework of a financial system based on a rhetoric of equality, the rich and poor compete for limited economic resources. Due to the existing social setup with vast social inequalities, the wealthy class dominates and claims ownership of natural resources leading to the social exclusion of the poor. Thus, the neoclassical theories of a free-market economy do not apply to developing nations fraught with inequalities. Poverty in poor economies is a product of market failure due to the existing social pressures, norms and cultures. The media and other international agencies and institutions have undertaken many social movements to subvert the perils of caste-based discrimination and the subjugation of fundamental rights. An example of such a celluloid movement is *Dalit cinema* in India, which has been operating since the 1960s. These movies lead to a public debate about the social realities existing among the poorest sections of society. The entire film genre is dedicated to the cause of the oppressed and poor, who struggle hard to make a living. Popular cinema, since the 1950s, has made a subtle effort to give voice to the struggles of the poor sections of society.

Inequality and Relational Poverty

Relational poverty refers to a phenomenon when poor people are unable to participate in society or community. Much to the dismay, before the coming of Indian cinema and in the pre-independence era, the scenario in terms of class stratification was highly pathetic. Indus valley civilisation that existed 2,500 years ago is a testimony to the social stratification within the society. India is a diverse country with a rich culture, with a diverse history of rulers and kingdoms. Aryans from Central Asia introduced the caste system in India to control their vast kingdom in Southeast Asia. The narratives and chronicles from the Gupta Empire