Chapter V

Conclusion and Policy Prescriptions

This chapter summarises the research findings, conclusions and policy prescriptions. Section 5.1 presents a summary of major findings and conclusions, Section 5.2 presents the policy prescriptions and 5.3 stated the limitations and future research.

5.1. Summary and Conclusion

Microfinance has emerged as an innovative development strategy for financial inclusion of the poor and very low income households as well as alleviating poverty across the world. The limited access to financial services, particularly the credit access is an important constraint in expanding employment opportunities in rural areas which restraint the poor and women from improving their living condition for meaningful life. The need for finance is recognized as a critical input for socio-economic development and, therefore, government of India and RBI have promoted the financial inclusion drive in the country to include vast majority of unbanked masses into banking fold. The failure of the formal sector financial institutions and the apparent success of Bangladesh's Grameen Bank in reaching the rural poor has inspired to introduce group lending schemes to deliver credit and financial services at low cost and reasonable rates of interest in many developing countries. This led to the avatar of a small group of poor people, known as Self-Help Group (SHG), predominantly women in India and other developing countries to deliver microfinance services. Group based microfinance led inclusion has been recognised as one of the fundamentals of the multi-pronged strategy that promotes financial inclusion for livelihood opportunities of the rural people by eradicating extreme poverty.

In India, there are broadly two different models for the delivery of microfinance services, that is, the SHG-bank linkage model and microfinance institution (MFI) model. Both the models are operational in Assam, but in Baksa and Udalguri districts of the state, only the SHG-bank linkage model has been operating under the Swarnjayanti Gram Swarozgar Yojana (SGSY) which is a comprehensive programme of financial inclusion and poverty alleviation in rural areas. There is no role of MFIs in these two study districts of Assam. Formally, the SHG-bank linkage programme was introduced to address the twin objectives of financial inclusion and poverty alleviation in 1992 by National Bank for Agriculture and Rural Development (NABARD) in India with the linkage of 500 SHGs to the formal lending institutions. Now, this programme is operational in almost all nook and corner of the Indian states. In this programme, poor people are assembled together to form a Self-Help Group and bank loan is given in group's name without taking any collateral. The bank loans are provided to the group members mainly to start any income generating activity either in joint venture or individually but it can also be used to meet some other emergency or consumption needs. The groups are also entitled to get second loan only after the previous loan is repaid. The peer pressure within the group helps in the repayment of the loan.

The review of various research studies conducted in the field of microfinance services in Indian states and across countries provides the consistent evidence that the microfinance programme is successful in generating employment and alleviating poverty among the programme participants. On the other hand, there are a number of other studies that contradict these results and concluded that it has a limited impact on employment and income generation due to the utilisation of micro-loans for unproductive purposes such as consumption and other needs. A number of studies show that microfinance promotes financial inclusion and helped in bringing the uncovered rural poor into the ambit of banking services. These studies reveal that participants of the programme have availed not only credit facility but the whole gamut of banking services including savings, credit, insurance and remittance (payment) facilities. However, some of the studies have also shown that the microfinance has limited outreach and poorest of the poor are excluded from the programme. In this way, it is found that the literature available on microfinance does not provide a clear idea about the impact and success of microfinance programme. Hence, there is a need to further conduct impact assessment studies to evaluate the functioning of the programme and removing the shortcomings and problems in its way. A number of studies have been conducted in Assam but there is a dearth of studies in Baksa and Udalguri districts of Assam.

The programme was started in Assam little late than the other states in India and picked its momentum up from the year 2001-02, but no particular study by any researcher or government organisation, is available so far, which assessed the impact of microfinance programme in these two sample districts of Assam. The present research work is an attempt to study the impact of SHG based microfinance programme in Baksa and Udalguri districts of Assam.

The overall objective of this research was to assess the impact of microfinance services on income, employment generation, poverty alleviation and financial inclusion of the participants of the programme in Baksa and Udalguri districts of Assam. The study is based on the research questions that SHG-Bank Linkage Programme can help in increasing level of employment, increase income, reduce poverty and promote financial inclusion among the participants of the programme. In order to find out the impact, primary data are collected from 330 respondents (150 participants and 180 non-participants) through multistage purposive random sampling method from Baksa and Udalguri districts of Assam. The study used a quasi-experimental approach comprising of a participant (treatment) and a control (comparison) group and the participants are compared with the non-participants to find out the impact. The treatment group consisted of the SHGs members who participated in the programme and availed the bank loans for more than two years, and the control group is formed with the new entrants into the programme in the form of new SHGs. The impact of microfinance programme on income, employment, poverty and financial inclusion indicators is measured by analysing the primary data. The impact of microfinance is also analysed using Propensity score matching (PSM) method to control for selection bias in the impact assessment.

The major findings are as follows:

The analysis of socio-economic profile of the surveyed respondents shows that most of the respondents are in the age group of 36 to 45 years. Majority of the participants and non-participant group are married women and their mean age is approximately 41 years. About 60 percent of the respondents have attained some form of education from (class V to XII standard). About 59.7 percent of the respondent’s households have 2 to 4 number of members in the household and their mean family size is approximately 5. Sixty seven percent of households are having 1-2 number of children and ninety-seventy per cent of the households are having 1-2 earners in the family. About 15 percent of the respondents do not possess any agricultural land out of which about 14 percent of the non-participants and nearly 17 percent of the participants are not having any agricultural land. The average size of agricultural land is about 5 bigha. The general characteristics of SHGs in the study area show that the size in most of the groups ranges from 10 to 20 members with an average of 12 members. Most of the groups have been functioning for 4 to 10 years since their inception. All the groups select their leader on nomination basis and meetings are held monthly for discussion as per programme guidelines. Moreover, the attendance of the members in the meeting is 90 to 100 percent. About 55 percent of the SHG members contribute savings of ₹50-100 per month and records and accounts of the group are mainly maintained by the literate member of the group. The loan utilisation pattern shows that 72.67 percent of the participants utilised some or whole part of their loan in income generating activities, followed by 40 percent for consumption purposes. Those who utilised their part of loan for income generating activities also used the remaining part of loan for other purposes such as consumption, medical social ceremony, etc. Most of the SHGs have been facing problems in their functioning like delay in sanctioning of loan, lack of knowledge about banking procedure, low amount of loan for generating economic activity as a group, etc.

5.1.1. Impact of Microfinance on income and Employment

In order to determine the impact on income, the income of participants of microfinance programme is compared with that of non-participants. It is found that the income of the programme participants has increased by 2.5 times more than the mean income of non-participants (control group). The mean income of control group is just ₹198.56 per month as compared to ₹502.11 per month for the participant (treatment) group. This means that the microfinance programme has helped its participants to increase their earnings which in turn increased the income in the household. This provides the evidence that the microfinance programme has helped to increase income not only of the individual but for the household of the participants also as compared to non-participants of the programme.

In regard to employment, the microfinance programme has helped participants to increase their level of employment. It is found that only 39 percent of the non-participants are employed as compared to the 84 per cent of participants. In terms of employment days per year, it is found that participants are employed for 161 days per year as compared to just 32 days by the non-participants. Therefore, microfinance programme has generated 129 days of employment per year for the participants of the programme. The programme participants utilise bank loans to start income generating activities for self-employment which generate income. They are mostly engaged in livestock rearing activity, followed by weaving and agricultural activity.

5.1.2. Impact of Microfinance on Financial Inclusion

Financial inclusion is a multi-dimensional process and denotes delivery of credit and other banking services to the poor and low income households at an affordable cost. The various services and products include credit, savings, insurance and remittance facilities which are also the products and services of microfinance. The Reserve Bank of India by recognising the importance of importance of finance for inclusive development and growth, promoted the financial inclusion drive in the country to include vast majority of unbanked masses into the ambit of formal institutions. Microfinance programme particularly the SHG-bank linkage programme led inclusion in formal banking fold has been recognized as one of the elements of the multipronged strategy that promotes financial inclusion. In order to determine the impact of microfinance, on financial inclusion, the households' access to formal financial services have been quantified by taking into account the usage dimension of variables including credit services, savings, insurance and transaction services like usage of ATM or cheque. The level of financial inclusion was estimated by adopting the method of weighted average index number. Appropriate weights were assigned to indicators of usage of financial services to derive an index of financial inclusion. The findings suggest that financial institutions are solely catering to the credit needs ignoring other services. The indicators like usage of ATM Card or Cheque for depositing or withdrawal of money or using as debit card could not make any effect in tribal households although it is slightly higher for participant households compared to non-participants. This is because these services are not generally provided by microfinance programme and poor banking habit prevailed in rural areas where cash remains the preferred mode of payment. But the credit access was found to be significantly higher among the participant households as compared to control group households. This shows that the SHG-bank linkage programme has significantly helped to increase the level of credit inclusion among the participant households as compared to non-participants.

Savings or thrift is considered as one of the important indicators of financial inclusion. Savings broadens the resources base of the formal institutions and acts as coverage in case of exigencies. While 92 percent of participants deposit their savings in their joint account as compared to about 4 percent of the non-participant group. The access to operational savings accounts by the participants are also higher than that of non-participants, but the usage of Recurring deposits (RD) or Fixed Deposits (FD) are low in both the treated and control household. The low level of RD/FD is due to financial illiteracy and awareness about these services. But the deposit inclusion in terms of SHG savings is high mainly due to the fact that credit facilities of the SHG-bank linkage programme are always linked to savings corpus of groups requiring compulsory savings. The level of Insurance coverage is almost similar in both the participants and non-participants group.

The overall impact of microfinance on financial inclusion was measured by preparing a financial inclusion index taking into consideration the above dimensions of usage. The calculated value of the index shows the result that participant households are more financially included as compared to non-participants. About 63 percent of non-participant households are totally excluded with no dealings with formal financial institutions for the last three years prior to survey. While 42 percent and 27 percent achieved medium and high level of financial inclusion, about 31 percent achieved low level of financial inclusion of the participant households. These figures for non-participant households are 16 percent, four percent and 17 percent respectively. This finding confirms that degree of financial inclusion is significantly associated with the participation in SHG-bank linkage programme. Thus, the participants are able to increase their level of financial inclusion as compared to non-participants in the study area. It is found that the mean financial inclusion of participants at 47.43 is significantly higher than the control group households.

5.1.3. Impact Assessment (ATE and ATT) of microfinance using PSM

The effect or impact of microfinance on income, employment, poverty, inequality and financial inclusion is also analysed by estimating the Average Treatment Effect (ATE) and Average treatment on the Treated (ATT) using the Propensity score Matching (PSM) method. This method is used to find out the actual impact of microfinance programme by correcting for selection bias in impact assessment based on propensity score derived by using the Probit model based on observable characteristics. The selection of covariates for matching was done following the rule that these variables simultaneously influence the treatment and the outcomes are included in the Probit model. The selected covariates for this purpose are age, education level, marital status, household size, agricultural landholdings, sex of household head dummy, economic dependency ratio, occupation dummy of the respondents, household monthly income, distance to financial institutions and two higher order terms including age-square and education-square. The results of Probit model indicate that the model is well specified with high Likelihood Ratio Chi-square of 52.91 and Pseudo R-squared coefficients of 0.4072. The Chi-square test is found significant at 1 percent level which indicates that the variables included in the model statistically explain the propensity scores in the matching steps. Among the covariates, age and agricultural landholdings negatively affect the probability and education, household size, marital status, gender, occupation dummy, monthly income, and distance from bank positively influence the probability of borrowing from the microfinance programme. However, dependency ratio and higher order terms do not explain the probability of participation in the programme. It is found that in 45 percent of cases, Probit model has predicted correctly the participation of all observations.

After deriving propensity scores, participants are matched with the closest propensity score of non-participants using the Nearest-Neighbour Matching and by using Kernel-Based Matching. The ATT and ATE are computed using the Nearest-Neighbour Matching and Kernel Matching estimators. The estimation of ATE using both the nearest neighbour and Kernel estimators reveal higher than ATU.

The estimated value of ATT of microfinance on monthly income has recorded an increment, on an average, of ₹441.71 to ₹390.16 per month more than the non-participants. Similarly, it finds that the microfinance programme has resulted in an increase, on an average, of 119 to 108 days per year over the non-participants in various economic activities. Moreover, the mean impact of microfinance programme on the weighted index of financial inclusion ranges from 35.93 to 33.44 as compared to control households. The estimated value of ATT using both the methods is found significant at 1 percent level. Thus, the findings reveal significant impact of microfinance on income, employment and financial inclusion of participant households.

In regard to poverty, the impact of microfinance is assessed on incidence, intensity and severity of poverty. For this purpose, we used three Foster, Greer and Thorbecke (FGT) poverty indices (P_α) to calculate the headcount index (P_0), poverty gap (P_1) and squared poverty gap (P_2) indices for the participant and non-participant households. The poverty line used was the poverty threshold for rural Assam estimated by the Planning Commission (GOI, 2013) for the year 2011-2012 which is H 828 per capita per month. The calculated values of these FGT indices show that all the three indicators of poverty were higher for the non-participants as compared to the programme participants. The poverty reduction effect of the microfinance programme were about 0.038 on incidence of poverty, 0.098 on poverty gap index and 0.070 on severity of poverty. Thus, it was found that about four percent incidence, ten percent intensity and seven percent severity of poverty are reduced among the participant households.

Moreover, the Lorenz curve, Gini coefficient and Atkinson methods are used to examine the impact of microfinance programme on the distribution of household income. The graph of Lorenz curve finds that the distribution of household income among the non-participants is more unequal as compared to the participant households. The Gini coefficient and Atkinson index values also reveal the reduction of inequality among the participant households as compared to non-participants. It is found that the SHG-bank linkage programme has reduced income inequality which ranges from 0.07 to 0.05 among the participant households. Thus, the microfinance programme has helped not only in raising the level of income but also to reduce the income inequalities in the distribution of household income among the programme participants as compared to non-participants.

5.2. Policy Prescriptions

Since the inception of planning, the Government of India has been implementing and are being implemented various rural development programmes and strategies to address the problem of financial exclusion and poverty in rural areas. Among the development strategies, the SHG-bank linkage programme is found the most successful one in India. Our analysis of primary data suggests that microfinance provided to SHG members can contribute to poverty alleviation programmes by helping them to generate income and employment in various economic activities through financial inclusion of the poor and very low income people.

On the basis of the present study, the following policy prescriptions can be suggested:

1. It is found that in the study area, microfinance is provided only through the SHG-bank linkage model under the SGSY scheme. There is no role of MFIs in the study area as well as in majority of districts in Assam. But MFIs can play a vital role to reach the poor people in areas where bank network is poor. Therefore, government should provide a supportive environment to encourage MFIs to participate in delivering microfinance services in the study area.
2. The microfinance programme is supposed to reach the poor people, especially who are living below the poverty line, who are bypassed by the formal lending institutions due to lack of collateral and unpredictable income. But it is found that people from above the poverty line are also involved in SHG activities. Therefore, government must employ staffs to check the background of the members for the inclusion of bottom poor into the programme.
3. An important problem facing by the SHG members is that they have to visit frequently to the bank and development block for approval of their application to get their sanctioned loan amount. This as mentioned by some members results existence of commission agents in the blocks and banks about which some members have complained. Therefore, credit camps

should be organized at block level and village level with representatives of banks, block officials and involvement of NGOs and experts from various development departments of government.

4. The time taken for sanctioning of loan also creates problems to the SHG members. It shows that the government sponsored scheme of microfinance requires a long period from the date of application to the block and sanctioning of loans by the bank branches. In addition, lack of knowledge about the bank procedure on the part of the participants and large formalities followed to get their sanctioned loans are major problems which hamper the functioning of the groups in the study area. Therefore, steps have to be taken to make banking procedure hassle free for the members and bank loans should be delivered as early as possible without any delay for better functioning of SHGs in study area. Necessary instructions may be given to the authorities and the bank officials to avoid the unnecessary delay in sanctioning the loan.
5. Economic activity undertaken by the members of the group largely depends on the amount of credit provided to them. A sufficiently large amount enables members to start their production in a large scale and the members also feel financially sound when sufficiently large amount of loans are given to them. But, most of members have contended dissatisfaction by pointing that the amount provided to them are inadequate to start off any income generating activity. Therefore, it is suggested that the banks and block officials should visit SHGs at regular interval and encourage them by sanctioning increased amount of loans to the extent that members can take up any income generating activity at their edge.
6. SHG members are engaged in traditional activities including agriculture, rearing of livestock and weaving which are low risks and low returned activities in the absence of training and proper marketing of their final products. Therefore, strong network of forward linkage such as, motivating workshops, training activities, etc. and backward linkages such as marketing assistance, identification of dealers or sales persons,

development of common brands etc. for development of micro enterprises are called for to link SHGs.

7. Insurance coverage is one of the essential products/services of microfinance programme. The microfinance programme, especially the SHG-bank linkage programme is supposed to provide this service along with the other products of microfinance. Insurance policy is quite essential in the emerging phase of uncertainty. However, the microfinance programme in the study area is limited to the provision of saving and credit facilities only. Therefore, concerted efforts by banks and government should be made towards providing micro-insurance services to the members of SHGs.
8. Women who are not involved in SHG activities should be encouraged to join existing ones or form their own SHGs so as to improve their chances of accessing finance from the microfinance programme. This can be done by arranging awareness campaign involving NGOs and social workers at the village level.
9. SHGs are usually formed by illiterate or merely literate village women. Therefore, it is recommended that the microfinance programme should come out with a training package that helps to give the right information about the microfinance products and services to women.
10. The study makes clear that addressing financial exclusion requires a holistic approach on the part of the banks in creating awareness about financial products, financial literacy and advice on money management, debt counseling, savings and affordable credit. Therefore, the banks have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion.
11. Based on the results of financial inclusion index, it is suggested that SHG members be given a better understanding on financial services- such as opening of savings account in formal institutions, participation in fixed/recurring deposit scheme, and availing of life insurance for the entire family. Microfinance providers, NGOs and other agencies need to increase the awareness by providing proper information and training to reach the currently un-reached segments of population and should motivate members

to take up more productive activities to enhance the income of the household in order to avail these facilities.

12. Based on the PSM results women should be encouraged to participate in microfinance programme as it significantly increases their income and employment levels. This is because increased income levels with employment security have implications for women empowerment which is critical for sustainable livelihoods development.

It can be concluded that concerted efforts be made for the stabilisation and sustainability of SHGs keeping in mind the long-term objectives of inclusive growth. The various problems encountered by SHGs in their functioning should be resolved immediately so that participants can continue as SHG members for a long period of time.

5.3. Limitations and Future Research

The limitation of this study is that the impact of microfinance is focused only in two districts of Assam, viz. Baksa and Udalguri districts taking two development blocks from each district to carry out the survey. The sample selected from these blocks may not represent the true situation of both the districts and acts as limitations of this study.

Furthermore, the present impact study escaped the dynamic impact of microfinance programme due to lack of proper data. The study that takes into account the effect of group maturity and the length of microfinance participation can be helpful because the impact of microfinance programme on households is believed to be attributed to group maturity as well as different lengths of programme participation. The research direction could look at this aspect of microfinance programme in future.