



Studying the Impact of Microfinance on Drought affected Region of Bundelkhand



**Centre for Research on Financial Inclusion and Microfinance (CRFIM)
Bankers Institute of Rural Development (BIRD)**

(An Institution Promoted by NABARD)

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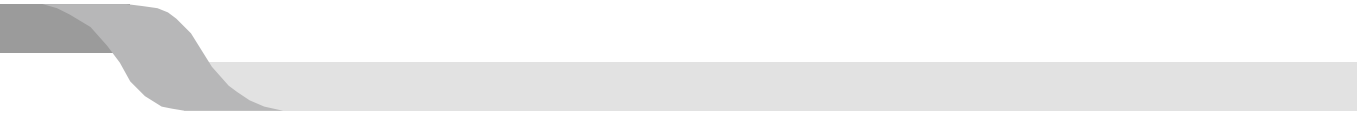
Preface

Drought affects our lives and livelihood in many different ways because water is such an important part of our activities. Direct impact of drought include crop failure, reduced land and forest productivity, depleting water level and increased livestock mortality. These may result in reduced income for farmers, increased prices for food, unemployment, migration, indebtedness and farmer's suicide. It produces a complex web of impact that spans beyond the physical area experiencing drought; because of indirect impact too. Bundelkhand region is historically a water distress area and drought is a frequent phenomenon for the region. The recent spell of drought occurred from 2010 to 2013. Even in later years, the annual rainfall seemed normal but distribution of rainfall was erratic and most of the rain occurred in the months of November to January, which again was a disaster for the region as the Rabi crop got damaged due to untimely rain in winters after poor Kharif crop in summers.

The different aspects of long lasting impact of drought on life and livelihood in bundelkhand region have been reported in many studies conducted on socio-economic factors, vulnerability, mitigation measures, indebtedness and other aspects of drought in Bundelkhand region.

Indian Grassland and Fodder Research Institute (IGFRI), the National Research Centre for Agro forestry (NRCAF) and U.P. Council of Agricultural Research (UPCAR) have conducted studies on various aspects of natural resources, agro forestry, water management, and perspective planning for Bundelkhand region. An Inter ministerial team conducted a study intituled "Drought Mitigation Strategies in Bundelkhand" on social and economic scenario for recommending the mitigation strategies specific to the area that can be effective in drought management. A "Mid-term Quick Impact Evaluation Study of Special Package for Drought Mitigation and Integrated Development of Bundelkhand Region" was also conducted by the NABARD Consultancy Services (NABCONS). These studies have suggested various measures for preparedness and also methods to mitigate the impact of drought.

Some other studies conducted by different organisations also provide a thoughtful insight into the problem and strive towards corrective measures. A study on situation of water crisis in the region titled 'Drought and Water Crisis in Bundelkhand' carried out



by WaterAid, incorporates the information on the declining agricultural productivity and the critical water situation. Development Alternatives carried out studies in Tikamgarh District with major impetus to the local community for livelihood security. A study by Centre for Contemporary Studies and Research (CCSR) and Bread for the World (Germany) entitled “Overcoming Poverty and Hunger in Bundelkhand” delves in detail on social security program and gaps in their implementation.

Eventually most of the studies related to Bundelkhand region focus on scientific and socio economic factors. The present study is an effort to examine the role of microfinance in mitigating the impact of drought on poorest of the poor people of Bundelkhand region. The study is conducted with objective to examine the role of Microfinance Institutions in Bundelkhand in addressing the changes in life and livelihood of rural poor due to drought and to explore the problems and constraints related to functioning of Microfinance Institutions in present context. The study may not attain for comprehensive strategies and effective implications of different mitigation measures but it must be helpful for analysis and micro level planning related to microfinance for the most vulnerable section of the society in Bundelkhand.

Dr. D. V. Deshpande
Director

Acknowledgement

The report on “Studying the Impact of Microfinance on Drought affected Region of Bundelkhand” is based on sample survey conducted in five districts of Bundelkhand region viz. Jhansi, Jalaun, Lalitpur, Tikamgarh and Sagar. The report provides a professional documentation of primary/secondary data collected on the impact of drought, through field visits and focus group discussions.

The study has been conducted by Research Officers, CRFIM, Dr. Yogesh Bandhu Arya and Shri Bhawani Singh Rathore. We acknowledge their efforts and put on record our appreciation for the insights and data brought in through this report.

We thank Micro Credit Innovation Department (MCID) and Department of Financial Inclusion and Banking Technology (DFIBT), NABARD, Head Office, Mumbai for their guidance.

We acknowledge cooperation and support received from the officials of NABARD Uttar Pradesh and Madhya Pradesh Regional Offices respectively and thank them all. We specially thank District Development Managers (DDMs) of NABARD at Jhansi, Jalaun, Lalitpur, Tikamgarh and Sagar districts.

We are thankful to Dr. R.R. Sinha and Sri M. R. Gopal, Faculty Member, BIRD for reviewing the report and refining it. Their valuable suggestions have helped to bring the report in present form. We also thank our faculty members at BIRD Lucknow, Mangalore & Bolpur and National Bank Staff College Lucknow for their advice and guidance. Shri Rajkumar, Joint Director, BIRD also deserves appreciation for his contribution in this work.

We acknowledge and thank the efforts of the field investigators at respective districts for conduct of field survey, focussed group discussion and collection of data.

We wish to thank SHG Members, mentor NGOs, MFI’s and the clients in general and beneficiaries in particular who interacted during the survey and focus group discussions for their whole hearted support and providing necessary information.

This work has been supervised by Dr. Dharendra Kumar, DGM, NABARD, Faculty Member BIRD and in-charge, CRFIM and Dr. Gyanendra Rout, AGM, BIRD without whose painstaking efforts, this work could not have been completed.

Dr. D.V. Deshpande
Director
BIRD Lucknow
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Executive Summary

This report “Studying the Impacts of Microfinance on Drought affected Region of Bundelkhand” has been conducted in five districts namely Jalaun, Jhansi and Lalitpur of Uttar Pradesh and Teekamgarh and Sagar districts of Madhya Pradesh. The main objective of the study was to examine the role of Microfinance Institutions in Bundelkhand in addressing the changes in life and livelihood of rural poor due to drought and to explore the problems and constraints related to functioning of Microfinance Institutions in present context for suggesting some corrective measures. Total 396 households have been surveyed for data collection on the basis of stratified purposive random sampling method. Out of these 396, 212 (53.54%) were from Schedule Caste (SC), 101 (25.51%) from Other Backward Caste (OBC), 62 (15.66%) from Schedule Tribes and rest 21 (5.3%) were from General categories.

The surveyed households have been classified on the basis of source of credit. Out of total 396, 145 samples were taken from MFI Clients; 141 samples from SHG-BLP members and 110 samples were from Non-clients (non MFIs/SHG-BLP clients). Most of the respondents didn't have sufficient economic assets for livelihood. It has been observed that only 37.5% client respondents (MFI + SHG clients) had cultivable land, whereas this figure was 43% for non-clients. This reflects the reason behind high demand for microfinance among this category.

MFI clients were heavily dependent on livestock as 30.75% had milch animals against only 18% by non-clients. 21% MFI clients also had goat/sheep/pig etc. as their livelihood resources, whereas only 12% non-clients had goat/sheep/pig.

Drought is almost regular phenomenon for Bundelkhand which has been severely affecting the livelihood in the region. It has been observed that the MFI clients were comparatively more active than non-clients in taking the challenges of drought. A large number of non-clients shifted their dependency on farming (14%) and started either labour work (35%) or migrated to other places (14%). In the case of MFI clients 19.32%; had reduced their dependency on farming (many of them as share cropper) and very few of them (4.41%) migrated. To carry on their livelihood resources MFI clients had increased dependency on livestock activities (12.54%), started new businesses (7.12%) and diversified their business (17.63%). Almost one fourth of them also started labour work.

Average income of the respondent was very nominal as more than one fourth (27%) of MFI clients had annual income of less than ₹ 12,000, whereas, only 12 percent non-client families were as poor as their counterpart of MFI clients having annual income of less than 12,000 rupees. Average income of the MFI client category was only ₹ 50,448/-. It was slightly higher ₹ 52385/- for non-clients.

It has been observed that the MFI clients had utilised the credit as investment in Livestock activities (14.53%), started new businesses (35.14%) and changed or expanded their businesses (27.03%), whereas most of the non-clients had borrowed to repay their debts (34%). Only 32 percent of non-clients had invested in either new businesses or changing/expanding their business. A large number of non-clients utilised the loan in other purposes like marriages, sickness or any other social events. It also has been observed that 51.22 percent MFI clients had taken second time loan for productive purposes. In contrast to this, only 39 percent non-clients were able to get second time loan due to their poor performance of loan utilisation.

Almost 76 percent MFI clients had taken loan amounting less than ₹ 20,000/-. This figure was 47.5 percent for non-clients. Due to the nature of group saving through SHG-BLP and lack of collaterals of individual MFI's clients' average loan amount was lower than the non-clients as 37.3 percent non-clients had loan amounting to more than ₹ 30,000/-.

The impact of microfinance was clearly visible as 8.11 percent MFI clients had reported that their income from agriculture has increased. Increase in income was also reported by this category through livestock activities (23.47%) and businesses (38.11%). However, 16 percent MFI clients also reported that there were no significant changes in their economic activities. The situation of non-clients was miserable as 68 percent had reported that there was no significant change in their livelihood. 15 percent non-clients perceived that their income from businesses has increased. 5 percent of them also have reported increased income from change in agricultural activities.

The positive impact of change was not only visualised in economic activities but also in consumption behaviour. **Almost half (49.32%) MFI clients reported that their behaviour has changed for personal consumption especially for food.** The next big change for this category was reported in expenditure on health and illness. **A few of the MFI clients also reported positive change in expenditure for education of their children**

(4.73%) and for durables (3.72%). In contrast to these only 29 percent non-client borrowers had reported for change in personal consumption. There were also some positive changes for expenditure on health (7%), better education (6%) and others (7%) mostly for social purposes in this category.

The economic condition of the families is dependent on social parameters, like caste, gender, education etc. and economic parameters like possession of landholdings, livestock resources and business activities etc. In this study, we tried to estimate impacts of various factors on household income through regression analysis. The analysis suggests that caste doesn't have a positive role in economic performance of non-clients. Decline in income is predicted by ₹ 7623/- for change in social category from general to OBC/SC/ST. However there was no significant impact of social category in economic performance for individual of MFI clients and SHG-BLP members.

It has been observed that female borrowers were more rational, as the outcome of loan was realised through increase in income by ₹ 8226/- in case of individual MFI clients and ₹ 14906/- for SHG-BLP members, but it was negative for non-clients as there was decline in income is predicted by ₹ 14702/- for female borrowers.

Education level had a significant impact on income of individual MFI clients as there was increase in income by ₹ 7072/- through adding an extra level of education. There was no significant impact of education for SHG-BLP members and non-clients.

There was no significant impacts on income of increase in land for non-clients and SHG-BLP members. Whereas for private MFI clients, an increase of ₹ 10,916/- was predicted for additional one hectare land for cultivation.

The amount invested in agriculture had positive impact on income of individual MFI clients and SHG-BLP members, as it was increasing by ₹ 1118/- and ₹ 1938/- respectively for each unit of investment (₹ 10,000/-). It was negative (declining by ₹ 1923/-) for non-clients.

In absence of any industrial progress, **livestock activities were most prominent among people across the Bundelkhand as it is the second best option of livelihood in the region.** There was significant increase in income of ₹ 9453/- for private MFI clients and ₹ 7926/- for SHG-BLP members for increase in each unit of investment (₹ 10,000/-). It was also positive as there was increase of ₹ 2660/- for non-clients for same investment.

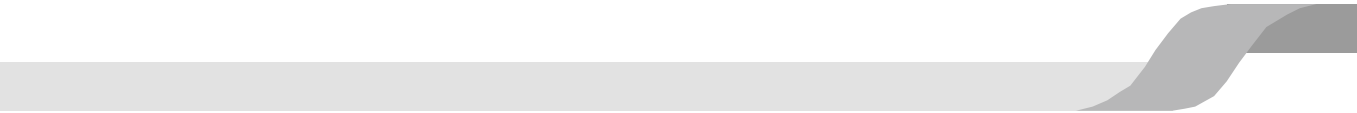
Small business activities like hawking, tailoring shop, vegetable vending, electric and electronic shop, retail shops, small brick-kiln, flour machine, handicraft work of wood, bamboo etc., were some main activities taken up by these borrowers. This kind of businesses had positive impact on income of all three categories. **An increase of ₹ 9453/- is predicted for non-clients for each unit of extra investment (₹ 10,000/-) in business activities. It was much higher for SHG-BLP members yielding Rs 19,529/- and ₹ 24,352/- for individual MFI clients.**

The result of this study shows that there are different outcome for SHGs operating in different conditions. A well-run SHG programs can result favourably in outreach and operational efficiency with alternatives, as was the case in Teekamgarh and Sagar districts. Here the SHGs were linked with private MFIs and were well monitored through SRLM program and with other mentor organisations. Thus there is a strong case to expand these types of model in other part of the region. However, **the success of SHG-BLP is highly case specific as observed in the most of districts during the study. These successes are limited to specific areas and specific mentors of SHGs and even with the nodal person of sponsoring agencies. It has been observed that integrated rural development schemes which offer grants, interest free loans, loan with subsidized interest and capacity building support for income generating activity etc. are more successful than the pure credit programs and need to be scaled up. It has been found that where the SHG-PIs are active in the field and has good involvement with NABARD and banks, the impact in terms of continuity of groups and increase in their household assets and well-beings are high.**

However, on the other hand a large number of SHG are not well run, which need to be improved by adding essential support services, especially financing and capacity building for entrepreneurship.

The private MFIs in Bundelkhand are facing other kinds of problems like near absence of basic infrastructure, compounded with the operational difficulties of high operational costs. Therefore, only few of them are able to survive. The lack of banking culture in the rural areas and among the urban poor is another limiting factor against the interest of MFIs in Bundelkhand.

To enable microfinance sector in Bundelkhand to take advantage of the enormous development potentials, some essential steps are suggested to mitigate the challenge,



e.g. capacity building for all the stakeholders from mentoring/supporting NGOs to SHG members and financing agency; training of clients in financial literacy before disbursing loans to them; change in traditional approach for the development of SHG-BLP model and promoting innovative models as evident in some districts during the study. There is need of a broad range of financial services to create and sustain livelihoods, build assets, manage risks and smooth consumption. As the study outcome confirms, microfinance can help significantly in this way.

The results of the study aligned with and confirm some of the evidence from microfinance research literature that found modest but neither revolutionary nor deleterious impacts from credit in general but it has importance for poorest of poor, who are not connected with formal banking system till date. Even though the role of microfinance in Bundelkhand is very important as it allows poor people to unleash small business opportunities and remains valid for many poor clients. Microfinance is generating notably higher incomes on average to resource less clients in the region. It also has many important benefits to households that are using loans to make household investments, absorb shocks or accelerate consumption, such as investments in durable goods, home improvements, or increasing quality of food and education for their children in some cases. This outcome is more important in the backdrop of consistent drought and socio-economic condition of the clients in Bundelkhand.