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INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventy-Fourth Session
Rome, 5-6 December 2001

REPUBLIC OF INDIA
COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)

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CURRENCY EQUIVALENTS

Currency Unit	=	Indian rupee (INR)
USD 1.00	=	INR 47.0
INR 1.00	=	USD 0.0213

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

CBO	Community-Based Organization
COSOP	Country Strategic Opportunities Paper
DFID	Department for International Development (United Kingdom)
FFI	Formal Financial Institution
HCR	Headcount Ratio
NGO	Non-Governmental Organization
ODA	Official Development Assistance
SC	Scheduled Caste
SHG	Self-Help Group
ST	Scheduled Tribe

GOVERNMENT OF INDIA

Fiscal Year
1 April - 31 March

PREVIOUS IFAD LOANS TO INDIA

Project/Programme Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/ Grant Amount	Disbursement (as % of approved amount)
Bhima Command Area Development Project	IFAD	World Bank: IDA	HC	18 Sep 79	14 Dec 79	31 Dec 85	L - I - 23 - IN	SDR	38 500 000	100%
Rajasthan Command Area Development and Settlement Project	IFAD	World Bank: IBRD	HC	19 Dec 79	03 Mar 80	31 Dec 88	L - I - 32 - IN	SDR	42 700 000	100%
Sundarban Development Project	IFAD	World Bank: IDA	HC	03 Dec 80	04 Feb 81	30 Jun 89	L - I - 49 - IN	SDR	13 350 000	100%
Madhya Pradesh Medium Irrigation Project	World Bank: IDA	World Bank: IDA	HC	17 Dec 81	17 Sep 82	31 Mar 88	L - I - 81 - IN	SDR	21 900 000	100%
Second Uttar Pradesh Public Tubewells Project	World Bank: IDA	World Bank: IDA	HC	21 Apr 83	06 Oct 83	31 Mar 91	L - I - 124 - IN	SDR	32 000 000	85.2%
Orissa Tribal Development Project	IFAD	UNOPS	HC	03 Dec 87	27 May 88	31 Dec 97	L - I - 214 - IN	SDR	9 250 000	99.9%
Tamil Nadu Women's Development Project	IFAD	UNOPS	HC	26 Apr 89	26 Jan 90	31 Dec 98	L - I - 240 - IN	SDR	13 150 000	98.3%
Andhra Pradesh Tribal Development Project	IFAD	UNOPS	HC	04 Apr 91	27 Aug 91	31 Mar 99	G - I - 36 - IN	USD	35 000	80.0%
Andhra Pradesh Tribal Development Project	IFAD	UNOPS	HC	04 Apr 91	27 Aug 91	31 Mar 99	G - I - 502 - IN	USD	22 000	73.1%
Andhra Pradesh Tribal Development Project	IFAD	UNOPS	HC	04 Apr 91	27 Aug 91	31 Mar 99	L - I - 282 - IN	SDR	14 050 000	92.2%
Maharashtra Rural Credit Project	IFAD	UNOPS	HC	06 Apr 93	06 Jan 94	30 Sep 02	L - I - 325 - IN	SDR	21 250 000	72.4%
Andhra Pradesh Participatory Tribal Development Project	IFAD	UNOPS	HC	19 Apr 94	18 Aug 94	31 Mar 03	L - I - 349 - IN	SDR	18 950 000	56.1%
Mewat Area Development Project	IFAD	UNOPS	HC	12 Apr 95	07 Jul 95	31 Dec 03	L - I - 379 - IN	SDR	9 650 000	45.9%
Rural Women's Development and Empowerment Project	IFAD	World Bank: IDA	HC	05 Dec 96	19 May 99	30 Jun 02	G - I - 33 - IN	USD	60 000	20.7%
Rural Women's Development and Empowerment Project	IFAD	World Bank: IDA	HC	05 Dec 96	19 May 99	30 Jun 02	L - I - 439 - IN	SDR	13 300 000	
North Eastern Region Community Resource Management Project for Upland Areas	IFAD	UNOPS	HC	29 Apr 97	23 Feb 99	31 Dec 04	G - I - 21 - IN	USD	100 000	98.0%
North Eastern Region Community Resource Management Project for Upland Areas	IFAD	UNOPS	HC	29 Apr 97	23 Feb 99	31 Dec 04	G - I - 21 - IN	USD	10 000	100%
North Eastern Region Community Resource Management Project for Upland Areas	IFAD	UNOPS	HC	29 Apr 97	23 Feb 99	31 Dec 04	G - I - 38 - IN	USD	60 000	69.9%
North Eastern Region Community Resource Management Project for Upland Areas	IFAD	UNOPS	HC	29 Apr 97	23 Feb 99	31 Dec 04	L - I - 444 - IN	SDR	16 550 000	05.9%
Jharkhand-Chattisgarh Tribal Development Programme	IFAD	IFAD	HC	29 Apr 99			G - I - 79 - IN	USD	60 000	00.4%
Jharkhand-Chattisgarh Tribal Development Programme	IFAD	IFAD	HC	29 Apr 99			L - I - 506 - IN	SDR	16 950 000	
National Microfinance Support Programme	IFAD	UNOPS	HC	04 May 00			G - I - 101 - IN	USD	60 000	
National Microfinance Support Programme	IFAD	UNOPS	HC	04 May 00			L - I - 538 - IN	SDR	16 350 000	

AT





EXECUTIVE SUMMARY

1. A consultation among the major stakeholders identified strategic opportunities for IFAD's future lending programme in India. As a result, the Country Strategic Opportunities Paper (COSOP) for India was approved in February 1999. The present COSOP updates its analyses, reinforces the conclusions and recommendations of the original COSOP concerning IFAD's role and strategy in India, and proposes a new rolling plan of action.
2. The proportion of poor in India has declined over the last two decades, albeit slowly. However, the absolute number of poor has increased: it is estimated today to be about 260 million; over 193 million live in rural areas. When the international figure of USD 1 per day is used to measure poverty incidence, the number rises significantly. Among rural households, landless agricultural labourers are commonly the most poor; among social groups, it is the scheduled tribes and scheduled castes. Women in India remain by far one of the most disadvantaged groups, while more than half of the children are underweight.
3. Overall gross national income (GNI) during 1951-80 increased at a low 3.6%, and per capita income by about 1.2%, per annum. Rates of growth rose over the last two decades, reaching between 5.3% and 7.2% in the 1990s. Thanks to a more prudent approach to liberalization, India successfully sidestepped major shocks. Economic growth across regions, however, is uneven and regional disparities have widened. Furthermore, economic inequality is growing and the gap between the states is persistent and expanding. While the incidence of poverty has decreased, the severity of poverty (the "poverty gap") has not. When adverse shocks do occur, the poorest of the poor continue to suffer them more deeply.
4. Agriculture remains the single largest contributor to the poor's well-being, sustaining over 70% of the rural labour force. Thus India has consistently urged the development of agriculture. Consequently, the production of food grain has increased by a factor of four and that of milk by 4.6 in the last five decades. Yet present investment in agriculture and agricultural efficiency is declining. Farm sizes are small and becoming smaller still. A large proportion of cultivable land is rainfed, and in the uplands land quality is deteriorating. Increased access to common-property resources, more-secure rights over forest land and added investment in upland areas – where most of the poor reside – will greatly help alleviate poverty.
5. The problem of rural poverty is enormous and IFAD has only limited resources at its disposal. Thus IFAD's role will be that of a catalyst. Within the context of the Millennium International Development Goals, however, IFAD faces challenges to that role: increasing inequality and the unchanging severity of poverty; an adverse and selectively worsening sex ratio; high rates of child malnutrition; high maternal mortality and female illiteracy rates; and degraded land resources. Therefore, IFAD will address critical issues confronting the most marginalized and vulnerable groups, particularly women, the tribals and other ethnic minorities. These interventions will seek to change the mindset of those promoting development within the Government, financial institutions, non-governmental organizations (NGOs) and community-based organizations (CBOs). The following areas in particular merit attention: gender issues; respect for indigenous knowledge and recognition of the capacities of the poor in decision-making and in managing development; a more sensitive approach to the design and implementation of development interventions; and building the capacities of the poor by establishing or strengthening institutions. The latter include self-help groups and community institutions, such as village development associations in tribal and non-tribal areas.
6. Relieving constraints on the poor while putting forward innovative approaches will provide IFAD with its strategic niche in India. If proven successful, the model may be replicated on a larger



scale by the Government of India or other donors. In this way, the proposed strategy builds upon and deepens the experience gained by earlier interventions that focused on tribal development, women's empowerment, access to common-property resources, wage employment and non-farm enterprise development. The *Panchayat Raj* initiatives will provide the framework for empowering the target clientele, especially in the scheduled tribal areas. Use of the statutory mandate for women's representation in local government bodies is also foreseen.

7. The major strategic thrusts in India will be to: (a) increase popular participation; (b) strengthen grass-roots institutions; (c) create greater access of the poor to resources, including land and common-property resources; (d) improve financial services to the poor; and (e) generate sustainable incomes for the poor from non-farm enterprises. Three areas reflect these strategic thrusts. They are natural resource management in rainfed tribal and non-tribal areas, microfinance initiatives and women's empowerment, and non-farm enterprise development. Reducing the vulnerability of the poor will be emphasized throughout, as will enhancing their capacity to absorb shocks.

8. Protection of tribal property rights in tribal areas will be the first step to alleviating poverty. Complementary activities will include watershed development and the promotion of alternative microfinance and community initiatives to improve health, education and literacy. Associated infrastructure works will provide wage employment to the poorest, while emphasizing savings and investment in income-generating assets. An institutional approach will include the strengthening of the institutions provided under the extension of the *Panchayat Raj* to the scheduled areas. Tribal culture, values and norms will be respected in pursuing development. Microfinance initiatives will concentrate on expanding microfinance facilities for the poor, especially among women. IFAD's earlier interventions converged on the formation of small self-help groups, which proved successful in generating income. The provision of mutual support through group membership was also effective in empowering women. Correspondingly, IFAD has supported microenterprise in the non-farm sector in conjunction with microcredit interventions. While these activities remain a valuable source of supplementary income and a way of diversifying income sources, the productivity of many activities is too low and the scale of operations too small. Interventions are needed that will associate the poor more substantively with non-farm enterprises.

9. In the last three years, IFAD has developed a strategic partnership with the World Food Programme and the Department for International Development (United Kingdom) in joint design and cofinancing. In addition, the partnership with the World Bank continues. Thus cofinancing will remain a strategy for augmenting resources and sharing experiences. Close partnership with NGOs and CBOs is a valuable dimension of IFAD's operations in India. The principal areas of policy dialogue with the Government touch on its protection of tribal rights, exploitation of forest resources and removal of barriers to free trade in forest products, and its continuing liberalization of the microfinance sector.

10. Within the framework of the 1999 COSOP, a microfinance programme was approved; a livelihood security project for the earthquake-affected communities in Gujarat will be presented to the September 2001 Executive Board; and a tribal development programme for Orissa is currently under appraisal. Under the rolling programme, a natural resource management project for developing non-farm enterprises for the North-Eastern Region was identified and another project (the empowerment of women or tribals and other ethnic minorities) will be advanced.



REPUBLIC OF INDIA

COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)

I. BACKGROUND

1. The partnership with India has been strong since IFAD first assisted India in 1979. India is a founding member of IFAD, the largest contributor to its resources in its category and is also its second largest borrower. While IFAD has contributed to India's poverty-alleviation efforts by sharing its global experience in rural poverty, it has, in turn, garnered rich experience by participating in the Government of India's rural poverty-alleviation programmes. These programmes are not only among some of the longest running and largest in the world, but they are implemented in diverse socio-economic and agro-climatic zones. Mutual learning is ongoing and is an important feature of IFAD's assistance programme for India.

2. Thus far, IFAD has financed 15 projects for a total loan commitment of USD 365 million. Until 1987, the approved loans primarily supported the Government's development of large-scale irrigation. Since 1987, IFAD has taken a more targeted approach, focusing principally on the tribal population and women. Near the close of the previous pipeline (and following IFAD's new project cycle), IFAD prepared an initial paper on poverty diagnosis and indicated strategic outcomes at a workshop, along with key senior government officials, experts, representatives of civil-society institutions and other donors. The views expressed during this brainstorming session helped formulate the proposed strategic direction; a Country Strategic Opportunities Paper (COSOP) for India was subsequently approved in February 1999. With the identification and approval of projects in the last two years and the availability of more information on poverty and demographics, the country strategic opportunities process recently undertook a review. The result is essentially a reinforcement of the conclusions and recommendations of the original COSOP concerning IFAD's role and strategy in India.

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXTS

A. Country Background

3. With an area of 3.29 million km² and a population of over one billion in 2000, India is a vast and diverse country. Seventy-three per cent of its people live in rural areas, relying chiefly on agriculture for their livelihood. Only 55% of the land area is considered arable, and each cultivable hectare must support four to seven people. Over time, population growth has declined, though it continues to hover at 2% per annum (see Appendix I). In the 1950s and 1960s, India was primarily an agricultural economy with low but stable growth rates. The 1970s were a difficult period. During 1951-80, the overall gross national income (GNI) increase was low (at about 3.6%) and per capita income expanded by a mere 1.2% per annum. Growth rates accelerated in the 1980s (5.4% during 1980-85 and 5.8% during 1986-90). This positive trend continued for most of the 1990s (5.3%-7.2%). As a result of differential sectoral growth rates, the economy has steadily undergone structural changes.

4. India has progressed socially and economically since independence over half a century ago, and this despite numerous limitations: a weak base from which to begin its development; susceptibility to various types of natural disasters; and the immense diversity and difficulty in applying standard solutions uniformly. The literacy rate has risen sharply - from 18% in 1950 to over 65% in 2000. Indeed, the gross enrolment ratio at the primary level was 92% in 1998/99. Life expectancy has increased as well, from 32 years in 1951 to 63 years in 1998. The child mortality rate (0-4 years) has



fallen but remains high (70 per thousand in 1998). More efforts are also required in other areas. For example, gross enrolment in the upper primary is only 54%; and about 53% of the children below four years of age are undernourished.

B. Recent Economic Reforms

5. The economic reforms begun in 1990-91 amalgamated macroeconomic stabilization and structural adjustment policies, and they were initiated after a severe macroeconomic crisis. The Government opted for gradual and controlled liberalization and downplayed the speed with which the reforms would be undertaken. The overall reliance on foreign bilateral or multilateral public capital inflows has been extremely limited. Thus policy-makers faced both hard budget constraints and an unthreatening external payments situation. The emphasis has fallen on the slow liberalization of trade and privatization, while avoiding capital-account liberalization. As a result, India's economy has grown and stabilized. This prudent approach also helped India avoid major shocks. Still, economic growth across the various regions of India is quite uneven and regional disparities have widened.

C. Agricultural Sector and Rural Development

Opportunities and Challenges in the Agricultural Sector

6. Although agriculture's share in total gross domestic product (GDP) has declined, it remains the single largest contributor to the well-being of the poor, sustaining over 70% of the rural labour force. Acknowledging this reality and aspiring to be self-sufficient in food production, India has assigned an extremely high priority to agricultural development, as witnessed by the notable increase in the number of inputs to agriculture. As a result, the potentially irrigable area has grown from less than 23 million ha in 1950/51 to 95 million ha in 1999/2000. The area under high-yielding varieties grew from less than 2% in 1966/67 to almost 75% in 1995/96. Similarly, fertilizer consumption increased from a low of 0.13 million tonnes (t) in nutrient terms in 1955/56 to 18.07 million t in 1999/2000. The production of food grain also jumped from 51 million t in 1950/51 to about 208 million in 1999/2000. During the same period, milk production expanded from 17 million t to 78 million. But challenges remain.

7. Food production in India grew because of larger areas under irrigation and a relatively high dose of inputs. The trend, however, is not likely to continue. Almost two thirds of the area is still rainfed and its continued dependence is foreseen. Estimates vary, but over half of the land suffers from degradation. Some 70 million ha (or over 20% of the total geographical area) require immediate attention. In addition, Indian agriculture is characterized by minuscule smallholdings. With the increase in rural population, the average holding size per household decreases still further. Land ownership remains substantially skewed. It is a long-term problem that will be solved, at least partly, by structurally transforming the economy. In the short and medium term, however, the difficulty can be met only by improving the agricultural sector's productivity.

8. Growth in Indian agriculture was achieved with a much higher level of public investment than in other East Asian countries. The relative inefficiency of the agricultural sector is explained largely by the activities financed: the majority of the expenditures consisted of subsidies. Further agricultural growth is possible, but only by improving productivity and changing the cropping pattern. A substantial increase in investment will be necessary. Yet total capital formation in agriculture as a percentage of total GDP is stagnating and even declining. More importantly, the share of public investment in agriculture fell from 33 to 25% in 1994/2000.

9. Studies of a number of states indicate that ownership of even a tiny piece of land improves the economic condition of the landless. While the Land Ceilings Act created an opportunity to redistribute ceiling surplus lands so as to alleviate poverty, actual distributions depend primarily on political will.



Facilitating access to other common-property resources may have a similar result and be easier to enact. An even better policy is to lease these lands to the poor, who would then develop them as their common properties. Still, protection of tribal property rights in tribal areas must remain the first priority for alleviating poverty; this applies not only to so-called agricultural lands but also to forest lands. Institutional reform is essential in order to dismantle controls on trade and generate exchange of forest products among rural people. While rainfed agriculture has received less attention in the past, its role for augmenting food production and farm income is now seen as crucial. In addition, the experience of successful projects demonstrates that microwatershed rehabilitation in semi-arid areas of India not only reverses environmental degradation, but also permits a quantum shift in sustainable agricultural productivity.

Rural Finance and Non-Farm Enterprises

10. The formal-sector banking network has grown dramatically, especially after 1969. Each bank branch now covers a population of about 11 000. With over 100 000 primary agricultural cooperatives and a large number of cooperative, rural and commercial banks, the system is large and moderately specialized. The Government has emphasized institutionalization of the agricultural and rural credit system, but access of the poor to institutional credit is limited: it reaches less than half of the households. Access to credit is arranged chiefly through government-supported and subsidized poverty-alleviation programmes. However, this type of credit rarely results in the development of a longer-term relationship between formal financial institutions (FFIs) and the borrower. Thus the rural poor turn to the informal sector for their credit needs, principally to traders, moneylenders and landlords. Exploitation results, especially among the tribal population and rural poor women. Against this background, various group-based microfinance schemes (such as those supported by IFAD in various projects) were more successful in providing credit to the poor, particularly to women. Historically, the macroeconomic policies in India were not conducive to developing a viable credit system for the rural poor. Since the launching of economic reforms, however, FFIs have been granted more latitude in fixing interest rates.

11. The Union and State Governments have highlighted rural industrialization through small and cottage industries and have allocated resources to it. There are success stories, but the overall approach, heavily supply-driven and costly, has been ineffective. As a result, the structural shift of the labour force from agriculture to manufacturing and other sectors has not been achieved. Accordingly, gains among the poor have been limited.

Local Self-Government

12. Since 1993, India has undertaken major initiatives to devolve power to local-level institutions through the 73rd and 74th Amendments to the Constitution. These amendments established *panchayats* (a local self-government system) in rural areas and conferred sweeping powers upon them. Legislation followed extending the *panchayat* system to tribal areas and handing over extensive powers in the allocation of resources to a *gram sabha* (village assembly). Consequently, it is possible that local political institutions will become participatory rather than representative; they will do better at identifying, implementing and using development programmes. These institutions can also provide a platform for the smaller, informal groups that are often the impetus for socio-economic development undertaken in IFAD projects.

D. Rural Poverty Context: Opportunities and Constraints

Poverty Situation and Trends

13. Available figures for 1993/94 disclose that slightly more than 35% of the population in India was under the officially defined poverty line. The incidence of poverty was higher for rural



households at 36.7% and lower for the urban poor (at 28%). The most recent estimate, made during 1999/2000, shows an aggregate of about 26% of the households below the official poverty line, though changes in methodology make comparisons difficult. The ratio is 27.1% among rural households and 23.6% among urban households (see Appendix III)¹.

14. India has a long record in estimating the incidence and severity of its poverty. During the first two and a half decades after 1947, the incidence of poverty fluctuated at about 53%, with no sustained decline in evidence. On the contrary, the headcount ratio (HCR) increased sharply during the mid-1960s and remained above 55% until the mid-1970s. Since 1977/78, the HCR has generally declined (see Appendix IV), but as population growth continually expanded, the absolute number of poor in India has not decreased significantly. Even under the optimistic scenario painted in the latest survey of 1999/2000, over 260 million people in India live below the officially defined poverty line. Of these, almost three fourths or over 193 million reside in rural areas. If the internationally accepted poverty line of USD 1 per day is used, some 44% of India's people are considered absolute poor. If USD 2 per day is used, the percentage jumps to 86%. Of the estimated 1.2 billion poor in the world, about one third are in India. Over 35% more poor live in India than in all of sub-Saharan Africa.

Regional Dimensions of Poverty

15. **Interstate variation and trends.** States vary dramatically in how well they are reducing poverty. For example, Andhra Pradesh and Punjab sharply reduced HCR for the rural poor. By contrast, poverty worsened in states such as Assam, and its incidence remains disturbingly high in the populous state of Bihar. Indeed, recent analyses indicate significant inter- and intrastate variation in the occurrence of rural poverty in India. Among the states with the highest incidence of poverty in 1993/94, Bihar ranks first (66%), followed by Assam (57%), Orissa (57%) and West Bengal (52%). The three eastern states of Bihar, Orissa and West Bengal accounted for more than 42% of the rural poor. The latest estimates of poverty made for 1999/2000, however, shouldn't be compared directly with figures from previous years due to the differences in methodology. Nevertheless, they do confirm the pattern of spatial distribution of poverty among states as shown in the 1993/94 survey.

16. **Intrastate variation and trends.** While states remain useful as units of analysis, differences within them account for variations in the incidence of poverty. For example, the 1993/94 survey showed that, in Maharashtra, a clear dichotomy in poverty rates existed between the coastal and western regions (24-38%) and the northern and eastern regions (62-66%). While some regions registered a decrease in poverty, an almost contiguous area was marked by an elevated incidence of poverty. It encompassed the four regions of eastern Maharashtra, the two southern regions of Madhya Pradesh, all of Uttar Pradesh (except the western region), all of Bihar and West Bengal, and the five regions of the north-eastern states. A large part of this area – consisting of eastern Maharashtra, most of the north-eastern states, Himalayan West Bengal and southern Bihar – exhibited both a high and an advancing incidence of absolute poverty between 1987/88 and 1993/94 (see Chart 1). Parts of these areas were subject to social unrest in that period; others contain a significant number of ethnic minorities; and most areas are dependent upon rainfed agriculture.

Poverty, Inequality and Unemployment

17. The inequality of consumption expenditure, as measured by the Gini coefficient, remained constant for about four decades, until 1994/95. Since then, however, urban inequality has grown steadily, raising overall inequality throughout Indian society. More worrying still is the unlikelihood that the ranking of states in terms of inequality, poverty and mean consumption will change

¹ These figures are based on a 30-day recall period. On a seven-day recall period, the figures are 23.3-24.0% in rural areas and 21.6% in urban areas.



significantly over time. Rising regional inequality is now a matter of serious concern, notwithstanding the Government's best efforts to limit interstate disparities. From IFAD's point of view, it is important to note that, since the mid-1990s, the HCR has behaved in a fundamentally different manner than the poverty gap ratio and squared poverty gap ratio. Between 1995 and 1997, the latter ratios registered increases, while the HCR recorded negative growth. Thus it appears that the proportion of those below the poverty line may have decreased, although the severity of poverty has not. Available data also suggest that the poorest of the poor suffer inordinately more in periods of adverse shocks.

18. In terms of rural employment and poverty, the trend between 1994 and 2001 is unclear. Overall, the share of rural areas in the total workforce declined from 78% to 76% and the share of women workers from 22.5% to 21%. Similarly, the daily status of rural unemployment has risen sharply both for men and women. By contrast, the average rural wage increased by about 2.5% during the same period.

Characteristics of the Poor

19. The vast majority of the rural poor in India are engaged in agriculture (including fishing and livestock), either as agricultural wage labourers, marginal farmers or self-employed workers. Almost 42% of the rural poor fall into the most economically disadvantaged group of agricultural labour; another 32% are self-employed households primarily working in agriculture. The elevated proportion of poor among the latter group is explained by their tiny holdings and extremely limited productive assets. Indeed 42% of rural poor households are landless and over 80% cultivate less than 1 ha of land. Hence, the rural poor are principally those who own little, including land, and are concentrated in certain parts of the country. Certain social groups, particularly scheduled castes (SCs) and scheduled tribes (STs), form disproportionately large segments of the poor. Pockets of poverty among STs can be relatively easily identified; SCs, however, are much more widely dispersed within the country.

Social Dimensions of Poverty

20. Not surprisingly, India's enormous diversity in terms of ethnicity, culture and language has implications for the distribution of poverty, as witnessed by its incidence among social groups: STs contain the highest proportion of the poor (54%), followed by SCs (50%). More than half the agricultural labour households below the poverty line belong to the SC/ST category. While SCs and STs encompass about 32% of the rural population, they account for more than 42% of poor households.

21. Of the total poor among the SCs, about 17% are landless, over 52% hold less than 0.4 ha and about 86% hold less than 1 ha of land. The poorest SC population is found in the agricultural labourer category (62%), followed by other rural labour households (44%). Within STs, agricultural households are the poorest (66% of the total in the category), followed by other rural labour households (54%) and self-employed households in agriculture (50%). In a number of regions, caste and to some extent ethnicity continue to determine who owns the land and consequently who is poor. Furthermore, STs and SCs in India suffer from forms of human deprivation well beyond the lack of material well-being. For instance, while the tribal population accounts for only about 8% of the total population, it constitutes 40% of the displaced population. In 1991 the literacy rate among STs was 24% and among SCs only 30%; while the general population's literacy rate was 52%. Among rural women of the tribal population, the literacy rate was only 13%. Tribal children also exhibited higher rates of malnutrition than those observed among the general population.



22. The Constitution of India recognized the plight of socially disadvantaged groups by committing the state to affirmative discrimination². Specific subplans for SCs and STs are prepared and separately funded and monitored. While these affirmative discrimination policies and programmes have noticeably improved the socio-economic status of SCs and STs, a wide gap remains, as witnessed by the indicators of well-being mentioned above and the conclusions of the government Planning Commission³.

Intrahousehold Distribution of Poverty

23. The plight of women and children stands out when the perspective shifts to intrahouseholds. In the last quarter of a century, Indian women did significantly improve their overall well-being. Yet women in India remain one of the most disadvantaged groups in society. The ratio of women to men rose marginally during 1991/2001 (933), after dropping for almost an entire century (944 in 1901 to 927 in 1991)⁴. India accounts for about one fourth of all maternity-related deaths in the world. Over 90% of rural women workers are unskilled and about 90% of women are engaged in the informal/unorganized sector. Wage rates in agriculture are, on average, 30-50% less than for men. Women casual labourers in rural India show the highest incidence of poverty of any occupational category. While children have benefited significantly from the extension of basic educational and health services, concerns remain. The majority of Indian children under five are underweight and the percentage of children that are wasting is among the highest in the world. In addition, child poverty is worsened by the phenomenon of child labour. Hence targeting must be sensitive to the composition and occupational structure of the family if the aim of the anti-poverty programme is not simply to alleviate current poverty but to have a lasting impact as well.

E. National Strategy for Poverty Eradication

Past Programmes and Performance

24. In recent decades India spent large amounts on targeted anti-poverty programmes. Of the total central plan budgetary expenditure, 5.5% was spent on rural anti-poverty programmes in 1990/91. The percentage increased to 8% in 1993/94 and was stabilized until 1997/98. Allocations and actual expenditures have declined since then and were estimated to be about 6.5% during 1999/2000. A large part of the total central allocation is for food subsidies, which account for almost 40% of the total for anti-poverty programmes. More recently, the food-subsidy programme introduced a dual pricing structure, allowing it to target poor households. Rural employment programmes have grown quickly in recent years; in terms of central government allocation, they equal the food-subsidy programme. While these programmes certainly assist the poor, evaluations show them to be male-dominated and prone to leakage.

25. Beginning in April 1999, the Integrated Rural Development Programme and related subprogrammes were restructured to form a single self-employment programme known as *Swarna*

² Principal measures were: the abolition of 'untouchability' (Article 17); the promotion of the educational and economic interests of SCs and STs and their protection from social injustice and exploitation (Article 46); promotion of the welfare of STs and raising the level of administration of the Scheduled Areas to that of the rest of the State (Article 244); special financial assistance (Article 275(1)); and reservation of seats for SCs and STs in democratic institutions (Articles 330 and 332), educational institutions and services (Article 335).

³ Ninth Plan, paragraph 3.9.11 onwards.

⁴ The gender ratio among children under six, however, fell from 945 to 927 in 2001. Ironically Punjab has the lowest ratio, 793:1000, in that age group.



*Jayanti Gram Sworozgar Yojana (SGSY)*⁵. The programme aims at promoting microenterprise through bank credit and a one-time capital grant from the Government. It exclusively targets households below the poverty line and introduces the concept of self-help groups (SHGs) in provisioning loans. Moreover, the SGSY targets SCs, STs and women. Although it is too early to assess its impact, initial observations of SGSY reveal the formation of groups lacking adequate social mobilization.

26. Conventional, formal financial-sector interventions have not significantly alleviated poverty in India, while successful examples of microfinance schemes do exist. Their outreach, although small, is expanding, as is their impact on the overall incidence of poverty. The Government has lately emphasized watershed development programmes under its rural development programme, which is also reflected in the assistance that donor agencies have channelled. But access of the poor to education and health continues to be blocked in India. In fact, public spending on education hardly benefits the poor. As a result, the enrolment and attainment levels of children from poorer households are much less than those of better-off children. The poor also face a disproportionately higher risk of falling sick than the rich, particularly from infectious diseases.

Future Policies

27. The Government set out its broad, medium-term direction for economic priorities in the "Approach Paper to the Ninth Five-Year Plan (1997-2002)". The paper recognizes a difficulty: although the macroeconomy performed reasonably well in the Eighth Plan (1987-92), the pattern of growth failed to benefit the poor and underprivileged. It recommends emphasizing initiative and participation; empowering women, SCs, STs and other backward classes and minorities by promoting participatory entities such as the *Panchayat Raj* institutions (PRIs); and making agricultural and rural development a priority so as to generate employment. Finally, it stresses accelerating growth, ensuring food and nutritional security (particularly among vulnerable sectors), stimulating social mobilization and building self-reliance.

28. The Government's Ninth Plan recognizes the necessity of continued, direct state intervention in poverty alleviation. The forms of intervention proposed include: timely and adequate availability of credit, particularly to small and marginal farmers and tribal farmers; encouragement of SHGs and savings practices; detection and redistribution of ceiling surplus land; tenancy reform and protecting tribal lands from loss of ownership; and greater access to wastelands and common-property resources for the poor as a group. The Government also asserts in the Ninth Plan that the economic reforms begun in 1991 secured sustained growth for the country, but goes on to identify certain areas of concern: inadequacy of reforms in the agricultural sector, failure to accelerate industrial growth to double digits, imperfect fiscal adjustments and insufficient investment in infrastructure and social services.

III. LESSONS LEARNED FROM IFAD EXPERIENCE

29. IFAD's first five projects were primarily intended to support the Government's priority of large-scale irrigation development. The last ten projects reflect instead the targeted clientele approach, one that focuses more intently on the needs of vulnerable groups. The later projects significantly increased the resilience of poor households (see Appendix V), while the group-based microfinance

⁵ The Integrated Rural Development Programme's overall impact was mixed at best. The amount of capital infused was inadequate to 'push' households above the poverty line, and repayment performance for bank loans was unacceptably low. In terms of targeting, in both this programme and rural employment programmes, 'encroachment' as well as 'left-out' errors are visible.



schemes for women (introduced in the Tamil Nadu Women's Development and the Maharashtra Rural Credit Projects) meaningfully raised the economic and social status of women in the project areas – notably, landless women reported becoming small-scale entrepreneurs. Women are more self-confident, more mobile and more at ease in their dealings with the bureaucracy. In some areas, the incidence of alcoholism and wife-beating have been reduced, and more girls are now attending school. However, the social impact was greater in empowering women in the public sphere rather than in the private. Equally important, a repayment culture has been established.

30. As a result of the tribal development projects in Andhra Pradesh and Orissa, management of development is now initiated, executed and monitored by the tribe. Previously, high labour-input programmes were elaborated, which brought only short-term benefits (in increased employment). The poor are now empowered as partners, with a stake in upgrading the natural resource base of their economy. New institutional arrangements have been made. These include participatory contracts for all construction works, community-run schools and community health workers. A foundation for self-reliance and for the emergence of women leaders is thereby encouraged. Women's savings and credit groups and village grain banks have engendered a propensity to save, proving that cultural mores are not fixed.

31. Though not without problems, effective working partnerships have arisen between the Government and non-governmental organizations (NGOs). Many NGOs contribute vitally to projects and help increase the social capital of community groups.

32. The following lessons have emerged from IFAD's ongoing experience in India:

- (i) Because rainfed areas are diverse, the availability of location-specific technological solutions is crucial. Thus more emphasis is required on both research and extension in dryland agriculture.
- (ii) For the poor and other deprived groups, economic development is fundamental. More attention ought to be given, however, to empowering them through a "coalition of the poor".
- (iii) Communities have demonstrated an encouraging responsiveness to the projects. This is especially true among women. With their empowerment, substantial gains can be made in building social capital.
- (iv) Generation of self-employment has been accented, but given widespread landlessness, illiteracy and the lack of entrepreneurial abilities among target groups, the possibility of creating wage employment still needs to be explored.
- (v) While it is true that institutions and policies may not always enable transfer of titles or usufruct rights over land on a wide scale, certain changes in the ownership and usage patterns can be introduced locally.
- (vi) The lack of access to financial resources for productive investment and to absorb shocks often constitutes a major obstacle to the development of the target groups. The standard terms and conditions of FFIs and high transaction costs usually act as deterrents.
- (vii) Proper skills can alter attitudes of dependency ingrained by past welfare approaches to tribal development and the absence of a culture of savings and financial management.
- (viii) Food-security strategies that seek to replace the traditional subsistence economy with cash-crop production diminish the role of women. They may even worsen the household's food-security situation.
- (ix) The implementation capacities available and prevailing public-sector attitudes are not always conducive to a participatory approach; change will require long-term efforts.



- (x) When allowed to lead the process of capacity-building in their sectors, strong NGOs can contribute significantly. Their involvement in project implementation requires a careful analysis of approach, experience and ability to expand capacity in a short period of time.
- (xi) Building the capacity of community-based organizations (CBOs) requires effort. But it also generates greater long-term benefits. Thus the Government's recent devolution of authority to local government institutions presents an opportunity to build local capacity while ensuring the relevance of development assistance and the sustainability of benefits.

IV. STRATEGIC FRAMEWORK FOR IFAD

A. IFAD's Strategic Niche and Its Proposed Thrusts in India

33. Given the enormity of the problem of rural poverty and the limited resources at its disposal, IFAD will serve as a catalyst in India. It faces, however, a number of challenges to that role: increasing inequality and the unchanging severity of poverty; an adverse and selectively worsening sex ratio; high rates of child malnutrition; high maternal mortality and female illiteracy rates; and degraded land resources⁶. IFAD's inability to lessen the scale of poverty in India suggests that its strategic niche in that country consists of the search for solutions to constraints on the poor and the development of innovative approaches. If proven successful, the Government and other donors can replicate these models on a larger scale.

34. In the areas of microfinance and women's empowerment, IFAD's past innovations largely succeeded in convincing state governments and other donors to replicate and improve upon them. In tribal development, replication of IFAD's efforts in sustainable natural resource management and the creation of local institutions has yet to occur, despite the Government's and other donors' emphasis on replication in their programmes. Further refinements in project designs, a closer partnership with other government programmes and significant scaling up in partnership with other donors will reproduce tribal development approaches on a wider scale.

35. Accordingly, IFAD will continue to address the critical issues facing the most marginalized and vulnerable groups, particularly women, tribal people and other ethnic minorities. Its interventions will seek changes in the mindset of promoters of development within the Government, financial institutions, NGOs and CBOs. Some of the areas include: greater preoccupation with gender issues; respect for indigenous knowledge; recognition of the capacities of the poor to participate in decision-making and the management of development; and a more sensitive approach to the design and implementation of development interventions. In this way, the capacities of the poor will be extended by establishing and strengthening their institutions (SHGs) and community institutions such as village development associations in tribal and non-tribal areas.

36. Despite its limited financial contribution, IFAD has gained respect and visibility through its interventions. Its selective approach has demonstrated that assistance to India can be relevant despite the immense scale of the country's poverty. IFAD's future operations, therefore, will largely build on the experiences gained in past projects, while deepening and extending them. This implies continuing contributions in the key areas of tribal development, microfinance and the empowerment of women. Some issues ought to receive more attention (e.g. the landless and scheduled castes (SCs) and their access to common-property resources, wage employment and non-farm enterprise development). Experience demonstrates that the targeting approach must be flexible and sensitive.

⁶ These concerns relate to a subset of the Millennium International Development Goals. Adverse sex ratio is proposed as an indicator of gender equality, and degrading land resources as an indicator of environmental sustainability.



37. India's changed development policies and its greater emphasis on initiative and participation will increase the likelihood of successful IFAD interventions. The climate for beneficiary participation has improved, which has helped grass-roots institutions develop while also empowering the intended clientele. Hence IFAD's strategy will support the Government's efforts to promote these new initiatives.

38. Accordingly, the major strategic thrusts of IFAD in the future should be to:

- increase popular participation in implementing anti-poverty initiatives; empower the poor and disadvantaged sections of society; build on opportunities offered by strengthening local bodies throughout the country and, in particular, devolving authority to the *gram sabha* (village assembly);
- strengthen grass-roots institutions that favour marginalized groups and integrate them into local self-government institutions so as to achieve synergies among economic advancement, social/infrastructural development and empowerment;
- increase access of the poor to resources such as land and water (including the forest lands and common-property resources); support appropriate services (extension, research, marketing) and human resource development;
- improve financial services to the poor by supporting microfinance initiatives; and
- generate significant and sustainable income for the poor from non-farm enterprises, upheld by market linkages and rural connectivity.

39. These thrusts will be pursued by blending a thematic approach with the targeting of groups for assistance. In addition, a location-specific focus will be given through the identification of appropriate pockets for project interventions based on data on the spatial distribution of poverty.

B. Targeting Strategy and the Target Group

40. Experience shows that most poverty-reduction programmes are initially effective but lose their impact over time. Therefore, IFAD-initiated projects ought to include continuous monitoring, with changes in project design when warranted. Secondly, even the best-designed project can fail if its clientele – the poor – fail to assert themselves and participate fully. Creating conditions for the development of this “coalition of the poor” has significant benefits. IFAD's future target group in India will consist of the rural population that belongs to STs and SCs and women, since they suffer from a higher incidence of poverty, greater vulnerability and usually lower social status. This is consistent both with IFAD policy and the Government's priorities.

41. **Scheduled Tribes.** The tribal population in 1991 was estimated at 68 million, or a little over 8% of the total population. Of these, 63 million people or 93% live in rural areas. Two distinct patterns among states are evident. In the first, the tribal populations are more numerous in absolute terms yet overall constitute a minority. These include Gujarat, Madhya Pradesh, Maharashtra, Orissa and Rajasthan. In the second, rural tribal populations are in the majority or occupy a significant proportion. These states are Assam, Chhatisgarh, Jharkhand, Manipur, Meghalaya and Arunachal Pradesh, Mizoram, Nagaland and Tripura.

42. **Scheduled Castes.** About 138 million persons or 16.5% of the total population belong to this group. Of these over 80% are rural. Unlike the tribal population, the SCs are more or less evenly distributed throughout the country. The exception is the North-Eastern states in which their share of the total population is limited. States with higher populations of SCs include Bihar, Tamil Nadu, Uttar Pradesh and West Bengal. The dispersal of SCs is visible even at the village level, which makes area-based targeting difficult. The contrary is true for tribal populations, which have a more concentrated presence in smaller pockets. IFAD's strategy, therefore, will be to use the presence of SCs as a criterion for selecting project areas.



43. **Women.** Among women generally, the most vulnerable are heads of households. Frequently they are widowed, separated or divorced, and have much less access to and control over land. They depend greatly on wage-labour employment and suffer a higher level of involuntary unemployment. Some 30% of households are estimated to be woman-headed, either *de jure* or *de facto*. Although the position of women varies across regions according to the economic status of the household (and its place in the caste hierarchy), the position of women is worse on the whole in the north than in the south. Constraints on women are stronger among caste Hindus than among SCs and STs, and more pressing among land-owning cultivators than among landless labourers or marginal farm families. Within a region, rural poor women are generally the most disadvantaged.

C. Main Opportunities for Project Intervention and Innovation

44. Three broad areas for project interventions may be distinguished: access to common-property resources and natural resource management, chiefly in rainfed tribal areas; microfinance initiatives and women's empowerment; and non-farm enterprise development. While the design of individual projects is a dominant theme, other themes will not be excluded if they are mutually supportive. In addition, a number of cross-cutting themes will be common to all projects. The first is the provision of microfinancial services to the poor and their access to FFI services; the former requires accenting the importance of savings as the basis for rural capital formation. The second consists in reinforcing grass-roots institutions, particularly the new PRIs, thus providing the means for STs, SCs, other ethnic minorities and women to exercise effectively the political and social rights granted by the Constitution.

45. Basic social-infrastructure services (such as health, education and literacy) need to be incorporated into all projects; target communities consider them to be as important as economic interventions. All projects must heed the requirement to build the defence systems of the poor in order to prepare them for their participation in the market economy, and to fortify the formation and use of social capital in ways that minimize cost without sacrificing quality. An outline of the main project ideas is given below and further details may be found in Appendix VI.

46. Common-property resources and natural resource management for tribal and rainfed areas present a further opportunity. Ownership of land or access to resources benefits the poor economically, both directly and by sustaining their bargaining position in the wage market. Project interventions will, therefore, support land distribution to the poor, while recognizing that the scope for success is limited by a lack of political will. They will also explore possibilities for a market-mediated redistribution of land.

47. Ensuring increased access of the poor to common-property resources is paramount (e.g. forests, water bodies, wasteland, etc.). The principal effort in the tribal areas will be to secure greater access rights to forest lands by developing community-managed forests, and to remove monopolistic and bureaucratic controls on trade in forest products. Since most tribals have access only to what is often low-productivity agricultural land, complementary activities will be those that improve dryland agriculture by undertaking a watershed approach. Associated infrastructure works will provide wage employment to the poorest, while the short-term windfall gain in income will be monitored to see that it is used for savings and investment in income-generating assets. In this way, the foundation for future prosperity will be laid. Alternative microfinance mechanisms that are not reliant on the banking and savings in various forms (grain, seeds, etc.) ought to be promoted to inculcate the habit of thrift.

48. Microfinance initiatives primarily for women's empowerment offer opportunities for project interventions. Since the poor have limited institutional credit (see Appendix VII), providing alternative microfinance initiatives that can reach them remains crucial. IFAD's earlier projects for group-based microfinance schemes for women showed excellent results. While the SHG model is performing well in India, the country's diversity demands alternative ways of reaching the poor,



especially in tribal areas. Other models are being tested – including Grameen Bank replications, NGOs acting as financial intermediaries for grass-roots organizations, and FFIs – but without coordination: most lack resources for onlending and constructing the social capital of grass-roots institutions.

49. IFAD's earlier interventions were driven by the formation of small SHGs. These proved successful in generating income, while the provision of mutual support through group membership assisted women in confronting their social constraints. However, small groups are more valuable in the initial stages; over time women need to develop a larger power base if they hope to advance, particularly in the public sphere. The same holds true if they wish to manage their microfinance activities more efficiently and if these activities are to be extended to other women. Scope does exist for a project that builds on the experiences gained in the Tamil Nadu Women's Development Project, the Maharashtra Rural Credit Project and the Rural Women's Development and Empowerment Project. Such a project will certainly have to consolidate the small groups formed under these projects by developing broader-based grass-roots institutions (such as federations of SHGs capable of expanding microfinance initiatives) and generating other primary-level groups.

50. Non-farm enterprise development, primarily for women, offers another occasion for project intervention. With small and decreasing farm sizes, raising agricultural productivity alone cannot solve rural poverty. Structural changes are required in rural areas that will set in motion an exodus out of agriculture so that those who remain can make a reasonable living. Thus achieving the goal of full employment depends crucially on employment growth in the rural small and microenterprise sector. IFAD has assisted the non-farm sector by supporting microenterprise as a supplement to microcredit interventions. Its involvement demonstrates that the productivity of many activities is too low and the scale of operation too small to achieve a quantum shift in income. Nevertheless, these activities remain a valuable source of supplementary income and help diversify income sources. In a word, they contribute to increased household livelihood security. Creating additional rural employment requires a different approach – one that involves the poor more substantively and remuneratively in non-farm income-generating activities. These can supply full-time employment opportunities.

51. The proposed project approach will be directed towards both the manufacturing and service sectors in: (i) support to microenterprise development as a supplementary income-generating activity for poor agricultural households. The inputs will include improving access to credit, skills development, provision of basic business skills, market linkages and follow-up support to entrepreneurs; and (ii) support for small-scale enterprise development that concentrates on the scale necessary to capture as much value addition as possible for the local area.

52. Rural non-farm enterprise development will require support in a number of areas, including the following: increased availability of credit; enterprise development through greater access to skills, business and management training, and improved technologies and production packages; marketing strategies; development of bargaining skills for higher wages, better working conditions and job security; and institutional development of grass-roots-driven cooperatives. Initially, this approach to non-farm enterprise development will be seen as a downstream project that builds on clients and groups already mobilized under the National Microfinance Support Programme or earlier IFAD programmes and projects.

D. Opportunities for Strategic Linkages with Other Bilateral and Multilateral Donors

53. At about 18% of the development budget, the contribution of official development assistance (ODA) is relatively less in India than elsewhere. Moreover, the total contribution to India of the United Nations system, including IFAD, is small. Yet the disproportionately high share of ODA in social-sector investments and the innovative inputs it brings makes ODA a catalyst. Gross pledges by



bilateral and multilateral participants have been about USD 4.1 billion per annum since 1992/93, and average utilization about USD 3.4 billion. Since 1995 the aggregate volume of external debt has stabilized at about USD 98 billion. Since 38% of the total debt is concessional and only about 5% is short term, India is classified as moderately indebted, despite its being the ninth largest debtor country.

54. The World Bank Group is largest in terms of ODA volume; on average it accounts for over 50% of the total. The World Bank's assistance to India in recent years has leaned towards the social sector, especially for education and health. Agriculture still accounts for a large share and efforts for anti-poverty programmes are being intensified. The Asian Development Bank has on average approved about USD 460 million annually. Among the bilaterals, Germany and Japan played significant roles until recently, while the United Kingdom's importance has grown of late. Many of these donors are stressing rural poverty alleviation and NGO participation, and therefore collaboration may be possible. However, as most bilaterals restrict their programmes to a limited number of states, thematic and geographical overlap should be carefully assessed and ensured.

55. In recent projects, IFAD has developed strategic partnerships with the World Food Programme (WFP) and the Department for International Development (United Kingdom) (DFID). The partnership with the former has enabled food-security issues to be addressed directly; food assistance is also used to enhance nutrition among vulnerable groups. By providing access to grant funds, the partnership with DFID helps finance the vital institutional aspects of projects, such as increasing social capital and the capacity-building of grass-roots organizations.

56. Germany and Switzerland have expressed an interest in the theme of microfinance; Germany together with The Netherlands did the same for watershed development and common-property resource management in tribal areas. Denmark, The Netherlands, Norway, Sweden and Switzerland all strongly support women's development activities in India. Possible partners for non-farm enterprise development might also include: the International Labour Organization, International Trade Centre (ITC)/World Trade Organization (WTO) and the United States Agency for International Development.

57. The strategic objective of understanding rural poverty and reversing it through an innovative institutional and investment framework guides IFAD's linkages with other donors. While cofinancing will be sought from like-minded strategic partners, learning from all major donors will be pursued. A partnership with DFID is also sought for the Second Orissa Tribal Development Project, which will dwell substantially on policy and institutional issues. Similarly, IFAD has reached an understanding with ITC/WTO/United Nations Conference on Trade and Development to develop jointly the preliminary non-timber forest-produce-based project for the north-east (Meghalaya).

E. Outreach and Partnership Possibilities with NGOs and National and Local Initiatives

58. As a democratic and open society, India offers an environment in which civil-society institutions play a crucial role in development. Accordingly, IFAD has elaborated a strong partnership with civil-society institutions in India; indeed it is one of its longest running. Thus far, it has catalysed community participation and microfinance operations. In the future, the partnership ought to be extended to policy identification, awareness-building and selective piloting, and the dissemination of innovative participatory mechanisms. For these areas, IFAD will selectively use its grant instruments.

59. While NGOs are important, CBOs are key to sustaining development initiatives. Recently established CBOs comprise the following: SHGs, federations of SHGs, village development associations, water user groups and natural resource management groups. Recently, the Livelihood Security Project for Earthquake-Affected Rural Households in Gujarat added a new dimension by



working with a membership-based voluntary organization, the Self-Employed Women's Association. The Government's devolution of authority to local government institutions offers CBOs an opportunity to use and increase their capacity-building.

F. Areas for Policy Dialogue

60. Consistent with IFAD's strategic thrusts, policy dialogue will concern the protection of tribal peoples' rights to exploit forest resources, and in particular the removal of monopolistic and bureaucratic controls on trade in forest products. Such controls severely penalize tribals in many states. Similarly, access of the tribal population to common-property resources needs to be enhanced. Furthermore, land titling remains an issue (especially where tribal villages are located on forest land); as does loss of ownership of tribal lands. While enabling legislation and administrative instructions may sometimes be found, innovative mechanisms are required to implement them effectively. With some effort, IFAD-assisted projects have settled the land-title issue successfully (in Orissa for example). Future project designs must emphasize such measures. IFAD-funded projects can also assist women in participating more in local government bodies: various local government acts ensure their representation. Finally, IFAD should continue to seek further liberalization of the financial system in order to provide a better environment for microfinance activities (see Appendix VII).

G. Portfolio Performance and Debt-Servicing

61. Since the beginning of the projects oriented towards the target clientele in 1987, IFAD's India portfolio has generally achieved its desired impact. Almost all projects approved in the last eight years, however, became effective only after an inordinately long time. While legal and administrative hurdles affected the last four projects, delay was also caused by the federal character of the country and the numerous administrative layers. In addition, disbursements in special drawing rights (SDR) terms have commonly been slow, more so in the early years of a project. The steady depreciation of the Indian rupee, the significant lead time taken in establishing project management and implementation units, and the frequent transfer of project staff, including project directors, are the principal obstacles to speedier implementation.

62. Since the quality of the portfolio reflects the eventual ownership of the project at its various levels, proper identification and thorough preparatory work will be of great importance. Targeting the poor and activities that matter to them requires a participatory process of project formulation. Efforts have been made to bring about innovations in project-management structures and staffing despite a number of obstacles. These include the frequent transfer of staff, the usual inflexibility inherent in government bureaucracies and the general lack of opportunity for government staff to specialize in development. An autonomous body for overall project management has been created, a system of seconding people from NGOs has been introduced and direct recruitment from the private sector has been initiated. Other measures required to enhance portfolio performance consist of: participation of beneficiaries in monitoring; outsourcing of specialized management services (such as baseline surveys and concurrent impact-monitoring); and augmenting the number of NGOs that provide specific technical services.

63. After a period of high growth, IFAD's net disbursement to India decreased during the 1990s, partly because the repayment of earlier loans began. In fact, the net disbursement was negative beginning in 1991 (Chart 2). After returning positive in 1995, in 2000 it was again negative. A partial reason may be found in India's significant contributions to IFAD's resources and fluctuating disbursement levels. A positive flow is expected again during 2001 and thereafter.



H. Tentative Lending Framework and Rolling Programme of Work

64. Three programmes/projects were developed within the COSOP framework approved in February 1999:

- a) **Jharkhand-Chattisgarh Tribal Development Project** – this programme originated in the previous pipeline but is consistent with the new strategy. It empowers tribal communities within the framework of the *panchayat* act's extension to tribal areas.
- b) **National Microfinance Support Programme** – this programme, implemented by an apex bank, expands microfinance services, particularly for women, by building the capacity of a range of different microfinance intermediaries.
- c) **Livelihood Security Project for Earthquake-Affected Rural Households in Gujarat** – this project responds to the devastating earthquake that struck Gujarat in January 2001. It provides greater livelihood security to economically vulnerable households and enhances their ability to absorb shocks and cope with crises.

65. The country strategic opportunities process reviewed strategy in the light of past project performance and the latest information and analyses on economic growth, inequality and poverty. This review reinforced the focus of the earlier strategy. Thus the present COSOP proposes carrying on the same themes and strategic thrusts. Accordingly, the new rolling programme will comprise:

- a) **Second Orissa Tribal Development Project** – this programme, already formulated but awaiting appraisal, seeks to restore self-reliance by promoting sustainable livelihoods based on natural resource management, together with the empowerment and capacity-building of tribal communities.
- b) **Natural Resource Management Project** for developing forest-based non-farm enterprises for the North-Eastern Region (Meghalaya) – this project is presently undergoing preliminary studies. It is intended to support sustainable forest management, including the examination of land tenure and access issues, and the development of non-farm enterprises based principally on bamboo and rattan.

66. A second phase of the Rural Women's Development and Empowerment Project may be requested, since the institutionalization of approaches within the states will likely require more time. Alternatively, the design of the ongoing project has enabled the World Bank to channel significant funding to women's development. As a result, IFAD's relevance to a second phase needs to be carefully examined, especially if other innovative ways of addressing women's empowerment issues are possible. IFAD will review existing projects and strategy, and women's empowerment, while assessing in preliminary fashion the innovative partnership arrangement proposed under the livelihood security project for Gujarat. Finally, it will recommend a future course of action.

V. CONCLUSIONS

67. Appraisal of the Second Orissa Tribal Development Project is planned for November-December 2001. It will be presented to the Executive Board in April 2002. Following the approval of the inception paper, the Asia and the Pacific Division will initiate formulation of the Non-Timber Forest Products Project for Meghalaya during 2002, for Board presentation in 2003. A review and update of the COSOP along with a revised rolling programme will be presented in late 2003. This is in line with the proposal in paragraph 66.

APPENDIX I

COUNTRY DATA

INDIA

Land area (km² thousand) 1997 1/	2 973	GNP per capita (USD) 1999 4/	440
Total population (million) 1999 4/	997.5	Average annual real rate of growth of GNP per capita, 1990-98 2/	4.3
Population density (people per km²) 1998 1/	330	Average annual rate of inflation, 1990-98 2/	9
Local currency	Indian rupee (INR)	Exchange rate: USD 1 =	INR 47.0
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-98 1/	2.0	GDP (USD million) 1999 4/	447 292
Crude birth rate (per thousand people) 1998 1/	27	Average annual rate of growth of GDP 1/ 1980-90	5.8
Crude death rate (per thousand people) 1998 1/	9	1990-98	6.1
Infant mortality rate (per thousand live births) 1998 1/	70	Sectoral distribution of GDP, 1998 1/	
Life expectancy at birth (years) 1998 1/	63	% agriculture	29
Number of rural poor (million) (approximate) 1/	259.7	% industry	25
Poor as % of total rural population 1/	37	% manufacturing	16
Total labour force (million) 1998 1/	431.1	% services	46
Female labour force as % of total, 1998 1/	32	Consumption, 1998 1/	
Education		General government consumption (as % of GDP)	11
Primary school gross enrolment (% of relevant age group) 1997 1/	100 a/	Private consumption (as % of GDP)	69
Adult literacy rate (% age 15 and above) 1998 3/	58	Gross domestic savings (as % of GDP)	21
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	2 496	Merchandise exports, 1998 1/	34 076
Prevalence of child malnutrition (height for age % of children under 5) 1992-98 1/	52	Merchandise imports, 1998 1/	44 828
Prevalence of child malnutrition (weight for age % of children under 5) 1992-98 1/	53	Balance of merchandise trade	-10 752
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-98 1/	5.2	before official transfers, 1998 1/	-15 264
Physicians (per thousand people) 1990-98 1/	0.41	after official transfers, 1998 1/	-4 984
Percentage population without access to safe water 1990-98 3/	19	Foreign direct investment, 1998 1/	2 635
Percentage population without access to health services 1981-93 3/	25	Government Finance	
Percentage population without access to sanitation 1990-98 3/	71	Overall budget surplus/deficit (including grants) (as % of GDP) 1997 1/	-5.6
Agriculture and Food		Total expenditure (% of GDP) 1997 1/	15
Food imports as percentage of total merchandise imports 1998 1/	5.6 a/	Total external debt (USD million) 1998 1/	98 232
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	912	Present value of debt (as % of GNP) 1998 1/	20
Food production index (1989-91=100) 1996-98 1/	120	Total debt service (% of exports of goods and services) 1998 1/	21
Land Use		Nominal lending rate of banks, 1998 1/	14
Arable land as % of land area, 1997 1/	54	Nominal deposit rate of banks, 1998 1/	n.a.
Forest area (km ² thousand) 1995 1/	650		
Forest area as % of total land area, 1995 1/	22		
Irrigated land as % of cropland, 1995-97 1/	32		

n.a. not available.

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 2000.

2/ World Bank, *Atlas*, 2000.

3/ UNDP, *Human Development Report*, 2000.

4/ World Bank, *World Development Indicators database*, 2001.

BASIC STATISTICS OF THE INDIAN ECONOMY

	GDP at Factor Cost Rs. Million at Current prices	GDP at Factor Cost Rs. Million at Constant Prices	Per capita Net National Product at 1993-94 prices (Rs.)	Index of Industrial Production 1993-94=100	Index of Agricultural Production	Gross Domestic Fixed Capital Formation (% of GDP)	Gross Domestic Savings (% of GDP)	Foodgrains Production (million tonnes)	Electricity generated (utilities only) (BKWH)	Wholesale Price Index (1993-94=100)	Consumer Price Index (1982=100)
1950-51	95490	1404770	3687	7.9	46.2	8.7	8.9	50.8	5.1	6.8	17
1960-61	1622220	2061210	4430	15.6	68.8	14.4	11.6	82	16.9	7.9	21
1970-71	422270	2963030	5002	28.1	85.9	15.4	14.6	108.4	55.8	14.3	38
1980-81	1301940	4011620	5353	43.1	102.1	20.3	18.9	129.6	110.8	36.8	81
1990-91	5110890	6930510	7323	91.6	148.4	26.3	23.1	176.4	264.3	73.7	193
1991-92	5892730	7020670	7215	92.2	145.5	22.5	22	168.4	287	83.9	219
1993-94	7813450	7813450	7698	100	157.3	23.1	22.5	184.3	324	100	258
1995-96	10732710	8995630	8499	123.3	160.7	26.8	25.1	180.4	379.9	121.6	313
1996-97	12435460	9700830	9036	130.8	175.7	24.5	23.2	199.4	395.9	127.2	342
1997-98	13900420	10162660	9288	139.5	165.3	25	23.5	192.3	421.7	132.8	366
1998-99	16160330	10830470	9733	145.2	178.1	23	22	203.5	448.6	140.7	414
1999-00	17864590	11519910	10204	154.7	176.8	23.3	22.3	208.9	480.7	145.3	428

Source: Economic Survey, Government of India, February

**NUMBER AND PERCENTAGE OF POPULATION BELOW POVERTY LINE
(BY STATE) – 1999/2000 (30-day Recall period)**

No.	States/U.T.'s	Rural		Urban		Combined	
		No. of Persons (Lakhs)	% of Persons	No. of Persons (Lakhs)	% of Persons	No. of Persons (Lakhs)	% of Persons
1.	Andhra Pradesh	58.13	11.05	60.88	26.63	119.01	15.77
2.	Arunachal Pradesh	3.80	40.04	0.18	7.47	3.98	33.47
3.	Assam	92.17	40.04	2.38	7.47	94.55	36.09
4.	Bihar	376.51	44.30	49.13	32.91	425.64	42.60
5.	Goa	0.11	1.35	0.59	7.52	0.70	4.40
6.	Gujarat	39.80	13.17	28.09	15.59	67.89	14.07
7.	Haryana	11.94	8.27	5.39	9.99	17.34	8.74
8.	Himachal Pradesh	4.84	7.94	0.29	4.63	5.12	7.63
9.	Jammu & Kashmir	2.97	3.97	0.49	1.98	3.46	3.48
10.	Karnataka	59.91	17.38	44.49	25.25	104.40	20.04
11.	Kerala	20.97	9.38	20.07	20.27	41.04	12.72
12.	Madhya Pradesh	217.32	37.06	81.22	38.44	298.54	37.43
13.	Maharashtra	125.12	23.72	102.87	26.81	227.99	25.02
14.	Manipur	6.53	40.04	0.66	7.47	7.19	28.54
15.	Meghalaya	7.89	40.04	0.34	7.47	8.23	33.87
16.	Mizoram	1.40	40.04	0.45	7.47	1.85	19.47
17.	Nagaland	5.21	40.04	0.28	7.47	5.49	32.67
18.	Orissa	143.69	48.01	25.40	42.83	169.09	47.15
19.	Punjab	10.20	6.35	4.29	5.75	14.49	6.16
20.	Rajasthan	55.06	13.74	26.78	19.85	81.83	15.28
21.	Sikkim	2.00	40.04	0.04	7.47	2.05	36.55
22.	Tamil Nadu	80.51	20.55	49.97	22.11	130.48	21.12
23.	Tripura	12.53	40.04	0.49	7.47	13.02	34.44
24.	Uttar Pradesh	412.01	31.22	117.88	30.89	529.89	31.15
25.	West Bengal	180.11	31.85	33.38	14.86	213.49	27.02
26.	A & N Island	0.58	20.55	0.24	22.11	0.82	20.99
27.	Chandigarh	0.06	5.75	0.45	5.75	0.51	5.75
28.	Dadra & Nagar Haveli	0.30	17.57	0.03	13.52	0.33	17.14
29.	Daman & Diu	0.01	1.35	0.05	7.52	0.06	4.44
30.	Delhi	0.07	0.40	11.42	9.42	11.49	8.23
31.	Lakshadweep	0.03	9.38	0.08	20.27	0.11	15.60
32.	Pondicherry	0.64	20.55	1.77	22.11	2.41	21.67
	All India	1932.43		670.07		2602.50	

Source: Government of India (2001)

Notes:

1. Poverty ratio of Assam is used for Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.
2. Poverty line of Maharashtra and expenditure distribution of Goa is used to estimate poverty ratio of Goa.
3. Poverty line of Himachal Pradesh and expenditure distribution of Jammu and Kashmir is used to estimate poverty ratio of Jammu and Kashmir.
4. Poverty ratio of Tamil Nadu is used for Pondicherry and A and N Island.
5. Urban poverty ratio of Punjab used for both rural and urban poverty of Chandigarh.
6. Poverty line of Maharashtra and expenditure distribution of Dadra and Nagar Haveli is used to estimate poverty ratio of Dadra and Nagar Haveli.
7. Poverty ratio of Goa is used for Daman and Diu.
8. Poverty ratio of Kerala is used for Lakshadweep.
9. Urban poverty ratio of Rajasthan is tentative.

INDIA POVERTY TRENDS (1951-1997) CORRECTED FOR CPIAL* CHANGES

(Poverty line = Rs. 49 per capita per month at Oct 73 - Jun 74 rural prices)

(For urban sector Rs. 57 per capita per month at 1973-74 prices)

NSS Round	Survey period	Headcount Index			Poverty Gap Index			Squared Poverty Gap Index		
		Rural	Urban	National	Rural	Urban	National	Rural	Urban	National
3	Aug 51-Nov 52	47.37	35.46	45.31	16.05	11.14	15.20	7.53	4.82	7.06
4	Apr 52-Sep 52	43.87	36.71	42.63	14.64	10.91	13.99	6.71	4.41	6.31
5	Dec 52-Mar 53	48.21	40.14	46.80	16.29	13.25	15.76	7.56	5.96	7.28
6	May 53-Sep 53	54.13	42.77	52.15	19.03	13.83	18.12	9.12	6.29	8.62
7	Oct 53-Mar 54	61.29	49.92	59.30	21.95	17.24	21.12	10.26	7.74	9.82
8	Jul 54-Mar 55	64.24	46.19	61.07	25.04	15.76	23.41	12.50	7.02	11.54
9	May 55-Nov 55	51.83	43.92	50.44	18.44	14.65	17.78	8.80	6.40	8.38
10	Dec 55-May 56	48.34	43.15	47.43	15.65	13.34	15.24	6.71	5.41	6.48
11	Aug 56-Feb 57	58.86	51.45	57.55	19.45	18.16	19.22	8.50	8.51	8.50
12	Mar 57-Aug 57	62.11	48.88	59.77	21.69	16.31	20.73	10.01	7.25	9.52
13	Sep 57-May 58	55.16	47.75	53.84	19.01	15.95	18.47	8.78	7.00	8.46
14	Jul 58-Jun 59	53.26	44.76	51.75	17.74	13.75	17.03	7.88	5.87	7.52
15	Jul 59-Jun 60	50.89	49.17	50.58	15.29	15.83	15.39	6.13	6.75	6.24
16	Jul 60-Aug 61	45.40	44.65	45.27	13.60	13.84	13.64	5.53	5.83	5.59
17	Sep 61-Jul 62	47.20	43.55	46.54	13.60	13.79	13.64	5.31	6.05	5.45
18	Feb 63-Jan 64	48.53	44.83	47.85	13.88	13.29	13.77	5.49	5.17	5.43
19	Jul 64-Jun 65	53.66	48.78	52.75	16.08	15.24	15.93	6.60	6.38	6.56
20	Jul 65-Jun 66	57.60	52.90	56.71	17.97	16.82	17.75	7.60	6.98	7.49
21	Jul 66-Jun 67	64.30	52.24	62.00	22.01	16.81	21.02	10.01	7.19	9.47
22	Jul 67-Jun 68	63.67	52.91	61.60	21.80	16.93	20.86	9.85	7.22	9.35
23	Jul 68-Jun 69	59.00	49.29	57.11	18.96	15.54	18.29	8.17	6.54	7.85
24	Jul 69-Jun 70	57.61	47.16	55.56	18.24	14.32	17.47	7.73	5.86	7.36
25	Jul 70-Jun 71	54.84	44.98	52.88	16.55	13.35	15.91	6.80	5.35	6.51
27	Oct 72-Sep 73	55.36	45.67	53.37	17.35	13.46	16.55	7.33	5.26	6.90
28	Oct 73-Jun 74	55.72	47.96	54.10	17.18	13.60	16.43	7.13	5.22	6.73
32	Jul 77-Jun 78	50.60	40.50	48.36	15.03	11.69	14.28	6.06	4.53	5.72
38	Jan 83-Dec 83	45.31	35.65	43.00	12.65	9.52	11.90	4.84	3.56	4.53
42	Jul 86-Jun 87	38.81	34.29	37.69	10.01	9.10	9.79	3.70	3.40	3.63
43	Jul 87-Jun 88	39.23	36.20	38.47	9.28	9.12	9.24	2.98	3.06	3.00
44	Jul 88-Jun 89	39.06	36.60	38.44	9.50	9.54	9.51	3.29	3.29	3.29
45	Jul 89-Jun 90	34.30	33.40	34.07	7.80	8.51	7.98	2.58	3.04	2.69
46	Jul 90-Jun 91	36.43	32.76	35.49	8.64	8.51	8.61	2.93	3.12	2.98
47	Jul 91-Dec 91	37.42	33.23	36.34	8.29	8.24	8.28	2.68	2.90	2.74
48	Jan 92-Dec 92	43.47	33.73	40.93	10.88	8.82	10.35	3.81	3.19	3.65
50	Jul 93-Jun 94	36.66	30.51	35.04	8.39	7.41	8.13	2.79	2.42	2.69
51	Jul 94-Jun 95	39.75	33.50	38.40	8.89	8.38	..	2.90	2.80	..
52	Jul 95-Jun 96	37.46	28.04	35.00	8.31	6.78	..	2.64	2.22	..
53	Jan 97-Dec 97	35.69	29.99	34.40	8.39	7.77	..	2.83	2.73	..

Note: All poverty measures are expressed as percentage.

* Consumer Price Index for Agricultural Labourers



LESSONS LEARNED FROM IFAD'S EARLIER PROJECTS IN INDIA

1. The first five projects funded by IFAD in India were cofinanced with the World Bank for irrigation development. These projects do not reflect IFAD's specificity. Since the initiation of the targeted clientele approach in 1987, IFAD has developed projects to cater to the needs of two groups: the tribal population (mainly through integrated development interventions) and women (chiefly through microfinance). Lessons learned can be grouped broadly along these lines.

I. TRIBAL DEVELOPMENT PROJECTS

A. Background

2. IFAD has assisted five tribal development projects since 1988. These are the Orissa Tribal Development Project (OTDP), Andhra Pradesh Tribal Development Project (AP I), Andhra Pradesh Participatory Tribal Development Project (APPTDP II), North Eastern Region Community Resource Management Project (NECRMP) and Jharkhand-Chattisgarh Tribal Development Project (JCTDP). The OTDP, AP I and NECRMP deal with tribal communities that are still engaged in shifting cultivation. In the AP II and CJTDP project areas, the tribal communities have practised settled cultivation for some time, but are constrained by low productivity and rainfed agriculture, which keeps them in poverty despite their relatively large landholdings. The implementation of CJTDP has just begun and thus lessons have yet to emerge.

3. All five projects have participatory development processes as their foundation. In Orissa, community mobilization and capacity-building were initially entrusted to an NGO, whereas in Andhra Pradesh the Integrated Tribal Development Agencies contracted community development organizers and agricultural/development consultants to assist communities. The NECRMP also contracted NGOs to interact with communities to facilitate participatory planning exercises to formulate the community natural resource management plans and to develop village institutions to implement them. The Andhra Pradesh projects, in particular, have stressed community-based activities, the development of self-reliant communities and strong and sustainable village institutions. These have included the village tribal development associations to oversee and monitor credit for farmers on behalf of the Girijan Cooperative Corporation, village development committees and savings and credit SHGs, involving tribal women in particular. A further innovation developed in the course of project implementation is the expulsion of all contractors from tribal areas and the devolution of responsibility for all infrastructural works, e.g., irrigation schemes, check dams, etc., to community committees that manage construction implementation. The NECRMP has completed the formation of the natural resource management groups (NARM) and is now preparing to implement village plans.

B. Outputs and Impact

4. All the projects implemented have recorded considerable achievements. Specific achievements of the OTDP include: (i) distribution of *dongar pattas* to the landless and near-landless and productive use of these lands; (ii) adoption of sloping land technology for reclaiming the *dongar* lands, particularly the higher slopes; (iii) innovative, small and effective systems of minor irrigation; (iv) significant impact of soil conservation works, including the successful use of vetiver on low-lying agricultural lands; (v) some degree of diversification in the cropping pattern and adoption of improved husbandry practices; (vi) emergence of women leaders in villages who manage civil works in and around the village; and (vii) openness of the staff to interaction and strategy discussion once leadership is provided.



5. The overall performance of AP-I has been good in relation to quantitative targets. The project has moved in the right direction by encouraging afforestation, soil conservation and horticulture on the slopes and expanding irrigation in order to promote food security. Women have spearheaded the progress made in thrift and credit groups and grain banks, and the number of SHGs formed has thus far exceeded expectations. Other successful and innovative developments have included: (i) the establishment of a research and development unit to study the value-added potential of minor forest produce, which has already yielded significant results in increasing the income of the tribal peoples; (ii) development of institutional arrangements such as participatory contracts and community-run schools that build self-reliance (these depend upon the generation of local employment opportunity); (iii) promotion of greater understanding of the role of women in shifting cultivation; and (iv) emergence of women leaders through the SHGs and construction works.

C. Lessons Learned

Community Participation and Institution-Building

6. Making operational the commitment to participatory development processes, however, has not always been easy due to concern about achieving targets, lack of motivation and conviction on the part of project functionaries and lack of comprehension on the part of communities of the new role being offered them. All too often, participation and participatory rural appraisal are reduced to routine procedures. Thus in AP-I, due to lack of conceptual clarity and training, the concept of community participation has been unevenly understood and variously interpreted by the different parties involved in project implementation. The focus on the mobilization of community groups to undertake specific infrastructural works has not been set in the overall context of institutional-building. Thus, while considerable transformation in the approach to tribal development is taking place, it presently falls short of a process that leads towards the establishment of sustainable village institutions.

7. While communities have shown an encouraging degree of responsiveness and capacity in undertaking more responsibility in development management (for example in the implementation of irrigation works), there are also clear indications that the free distribution of all benefits undermines the spirit of self-help and beneficiary participation. Experience increasingly demonstrates that sustainability and a sense of ownership of the development activity is only engendered when communities and individuals are required to indicate their commitment by making some contribution. In addition, a weak sense of ownership can also result from the inability of the project to identify people's initiatives and to build on them.

8. If project promoters are sincere about participatory processes and sustainable development, then there is a need to shift from a target-oriented to a process-oriented approach to development in tribal areas. For sustainability to be achieved, the thrust must be on building local capacities in order to ultimately reduce the dependency of tribal communities, which has been built up by past welfarist development approaches. This requires long-term commitment and an increased accent on the training of villagers – both men and women – in a range of technical and managerial skills.

Natural Resources Management

9. The OTDP and AP projects have adopted a microwatershed approach to natural resource management. While theoretically sound, in practice community-based land-use management offers a better framework than the microwatershed, as people do not identify with it. Hence it is preferable to promote improved natural resource management in individual villages regardless of their location. In addition, despite the projects' intentions, the degree of people's involvement in planning, implementation and management of watershed development has often been minimal.



10. **Soil conservation.** The experience of the OTDP and AP projects demonstrates that tribal farmers regard soil-conservation activities as project-sponsored activities and as a source of short-term wages. This is indicative of the lack of beneficiary motivation and involvement in these activities, engendered to a large extent by the provision of full grants for the undertaking of the works. Greater attention is therefore required in order to motivate and involve beneficiaries. The best entry point for this purpose is for the project to recognize tribal farmers' indigenous knowledge and to build on these traditional soil and water-conservation measures. It has also been the experience that the reduction in erosion and the generation of new resources depend more on improvement of vegetative cover than on the construction of conservation works. Traditional practices are again an important starting point. Cost-effective vegetative bunds should be given priority over engineering measures or structures.

11. **Irrigation.** Irrigation is an attractive and visible activity, but the expected impact on yields has not always been achieved due to lack of follow-up measures, particularly in land development. In addition, attention needs to be paid to ensuring that water-management practices provide an equitable supply of water to all beneficiaries. In many instances, water user groups have not been formed or beneficiaries have not been expected to contribute, leading to a lack of ownership and of willingness to take responsibility for operation and maintenance. Self-reliance has to be established at the outset; a later change cannot be relied upon.

12. **Agroforestry.** The choice of species is crucial to the successful uptake of agroforestry, afforestation and horticultural plantations. Any attempt to promote tree planting will have greater success if both cash-income trees and products for direct use are emphasized in the selection of species. Experience also shows that monocropping should be avoided. Where community forestry is concerned, ownership is important for the response of the community. Where the land remains in the hands of the Government, with open access, regeneration of forest cover is unlikely to be successful.

Farming Systems

13. Despite professing to adopt a holistic approach, rainfed farming and livestock have not been given sufficient attention. The adaptive research programmes, in particular, have failed to give sufficient weight to rainfed agriculture.

Women's Participation

14. Conscious efforts have been made to promote women's involvement. Women have gained confidence through organizing, found strength through group solidarity to offset individual weakness and demonstrated their ability to provide leadership and undertake independent action. This has increased their prestige in the community and within the family. Attention should first be given to forming a women's committee and then a village development committee including both men and women. Experience also shows that the project staff sometimes tend to pay only lip service to gender issues. This emphasizes that increased efforts are needed in attitudinal change among project management staff. There is a need therefore for making a conscious effort to enhance women's participation and position in the community and to address the real issues that affect women's empowerment, namely: (i) ensuring their effective integration into village institutions and into the decision-making processes in the community and (ii) redefining gender roles by confronting the structural factors that influence women's position in the family and society.

Extension

15. Experience indicates that it is better to work with groups than with individuals. In particular, women's groups should be used to promote and diffuse technology. While demonstrations are an important tool in technology transfer, there is a danger that the process will become target-oriented



and as a result fail to evoke the interest of farmers, because the demonstrations are not perceived as being of relevance. Thus there is a need for a participatory approach to demonstrations.

II. WOMEN'S DEVELOPMENT PROJECTS

A. Background

16. IFAD has assisted women's development through the provision of savings and credit services through the Tamil Nadu Women's Development Project and supported the formation of self-help groups for savings and credit through the Maharashtra Rural Development Project and the Rural Women's Development and Empowerment Project covering seven states. In all cases, women's development corporations have been responsible for managing activities. Women SHGs have also been formed under the Andhra Pradesh tribal development projects and the NECRMP.

17. The overall objective of the women's development projects has been the economic and social advancement of women. The approach to social change has been through an increase in women's awareness and fostering their confidence to strive for change through the development of strong, cohesive groups, as a source of mutual support for women, and through the provision of an animator in the village to motivate and guide them. Improvement in their economic position has been approached by increasing their income-earning potential through their integration into the regular delivery system for credit and technical support services. The entry point and central feature of the project is the formation of savings and credit groups to meet women's needs for crisis credit.

B. Outputs and Impact

18. Qualitatively, there is evidence of considerable social impact on women, particularly in well-functioning, homogenous groups of very poor women, in which women report a greater degree of self-confidence, greater mobility and greater ease in visiting banks and conversing with various different officials. Landless women report a significant social change, having moved from being labourers to small-scale entrepreneurs as a result of obtaining loans under the project. For other women, the most important social impact has been their ability to leave the house to attend group meetings. Group membership has also allowed women to undertake many collective actions, ranging from petitioning for street lighting, to arranging for milk routes to stop in their village. The social impact appears to have been greater in empowering women in the public rather than in the private sphere. Women have reported feeling bolder now in going to agencies for inputs, visiting banks and speaking with officials visiting the village. The project seems to have enabled women to develop appropriate attitudes as well as skills and know-how in dealing with external institutions (NGOs, line agencies, banks, etc.). As a result, women have developed the habit of systematic savings and a repayment culture. Consequently, the banks have begun to view SHGs as welcome opportunities for developing rural poor clients and transforming them into regular bank borrowers.

C. Lessons Learned

Role of Intervenors

19. **Non-governmental organizations.** NGOs have played a key role, but the selection of NGOs is crucial to success. Group quality and performance is mainly dependent on the orientation, philosophy, management style and experience with credit programmes of NGOs. Even well-qualified NGOs need to be monitored, especially with regard to the progress and quality of groups and the relevance and adequacy of the training provided. To ensure a focus on quality, NGOs should be paid on a performance basis linked to the number of groups trained in group dynamics and technical skills, not merely on the number of groups formed. Experience also shows that the practice of building on



existing groups formed for a different purpose needs to be approached with caution, and a careful evaluation must be made of how effectively they can be modified to fit the project's objectives.

20. **Animators.** The animators play a crucial role and have had a strong impact on the groups. The tendency to dominate the group, however, was clearly noticeable. Better training in participatory skills will ensure that they are better equipped to support the emergence of other leaders within the group, who in turn will be mutually supportive. In order to ensure accountability, it would also be better if the animator's honorarium was paid by the group; from a study of several groups, it appears that this is feasible from the fifth year onwards.

21. **Banks.** Overall, the banks have shown considerable interest in supporting SHGs. But they need to be involved immediately at the outset. In addition, individual rural branches can be overloaded if group development is concentrated in a limited area.

Group Formation and Management

22. An important lesson learned from the Tamil Nadu project is that one of the best indicators of the dynamism and cohesion of a group is the degree of rotation to all members of small, internal loans based on their savings prior to applying for bank loans. Groups that were not constrained from doing this (due to local bank rules obliging them to keep their savings as bank deposits) and were able to postpone the application for bank loans for at least a year, were able to develop a sense of self-reliance and solidarity as well as a repayment culture. No bank loans should be given until the groups have acquired the habit of regular savings credited to a common fund and have gained experience in revolving these savings through internal loans.

23. **Factors enhancing group sustainability.** Experience has shown that the following factors enhanced group solidarity and sustainability: size (small groups of less than 25); homogeneity (similar socio-economic background); degree of rotation of the common fund based on savings before project loans were requested; training of animators in group dynamics and management; quantum and rate of savings (a high rate generated confidence in their own efforts); and a broad spectrum of group activities, including provision of service, which also increased the common fund and supported group action.

24. **Federations.** Attempts to create group federations should not be undertaken until the groups have attained a mature level of functioning, appreciate the importance of such a federation, and are in a position to control it. The present experience indicates that federations should be limited to a social and information-sharing role and refrain from playing a financial role.

25. **Target group.** Even with well-defined target-group criteria for poor women, the most disadvantaged women, namely the landless, women from marginal farm families and women-heads of households, have not been adequately represented in the groups. This has arisen partly from the nexus between various actors at the village level (local leaders, lower-level government functionaries, etc.) and partly due to the tendency of the animator to select women with whom she felt comfortable and to whom she could relate because they were literate. A further contributory factor has been the project practice of paying the NGOs the same fee per group, irrespective of its social complexion, whereas more time and effort are required to nurture groups among the SCs and STs. In the future, a system of differential payments should be instituted.

Training

26. The content and quality of training differs from NGO to NGO. Often, it is well below the standard required, and NGOs themselves need more training, particularly in group dynamics, group management, gender and poverty issues, credit-related issues, and participatory planning skills. This



service could be provided by larger, experienced NGOs and/or consultants. In many areas the animators are given major responsibility for conducting training modules, but they are not adequately qualified and experienced to undertake this role. In addition, they are not equipped with adequate communication materials. Animators require training in participation to enable them to modify their own often dominating behaviour and to create a participatory environment for all women members.

27. Group training is crucial to the success of the project; primarily training in group dynamics, group management and the participatory skills required for group cohesion and sustainability. Many women are still passive participants in meetings. Group training with a focus on the weaker members should be given priority. An important training aid that should be developed is videotaping of the behaviours and interactions among women members in a well-functioning group, illustrating successful group dynamics, active participation and democratic decision-making. In addition, entrepreneurship training is crucial for effective management of economic activities; it should include the basic principles of planning, management and accounting, including the cost of one's own labour and profit. Similarly, training in poverty and gender issues should be extended to all project officers, member of line departments on deputation to the project implementation unit (PIU), bank officers at district and branch levels and NGOs. Additionally, women find it difficult to leave the village to attend training. In order to accommodate women's work overload and multiple responsibilities, their training should be offered at the village level and should be practical, on-the-job training, well-adjusted to women's reality.

Economic Activities

28. There is a need to diversify the profitable productive activities for which loans are available to women, in order to increase women's awareness and empowerment. This diversification, however, needs to be based on the results of good market research undertaken in different localities of project concentration. Market-research capability should be accessed on a contractual basis.

Savings and Contributions to Groups

29. Some women are able to save more but are reluctant to save through the group fund, because they cannot withdraw their savings except as small loans – hence they deposit their surplus savings outside of the group. If the savings had been placed with the group, the members could have earned higher returns, at the same time increasing the loanable funds of the group. In mature groups, the system of individual deposits should be introduced, on a pilot basis, and should be thoroughly evaluated. In Tamil Nadu, provision was made under the project for contributions to the groups from the Capital Development Fund. This contribution should go as a grant to well-functioning, dynamic groups in order to increase the possibility of flexibility for its members and to safeguard sustainability by increasing women members' self-confidence.

Monitoring and Evaluation

30. The monitoring and evaluation system needs to include data concerning the training of loanees in practical and technical skills, in group dynamics and participatory skills, as well as data regarding the degree of consolidation of groups. Emphasis should also be placed on participatory evaluation.

PROFILES OF PROJECT IDEAS

1. This appendix provides profiles of the proposed project ideas. The concept and design of the projects is very tentative at this stage and would be refined, developed and modified in the course of project formulation.

A. Natural Resource Management Project for Forest-Based Non-Farm Enterprises for the North-Eastern Region, Meghalaya

2. **Rationale.** The forest cover of the north-east region has been rapidly decreasing due to indiscriminate felling for timber and intensified shifting cultivation (*jhuming*). The standing stock is degenerating, biodiversity is being lost and valuable non-timber forest produce (NTFP) is being depleted. Loss of soil nutrients, soil erosion and increasing landslides affect the production of food crops and infrastructure, and the livelihoods of the rural population are threatened. Large proportions of the rural population already live in poverty.

3. The present status of the forest lands in Meghalaya and widespread rural poverty indicate lack of sound practices for sustainable forest management and utilization. If properly managed, much of the forest land has the potential to grow a wide variety of valuable tree species. Introduction of multipurpose forestry to produce a mix of products, such as timber trees with different rotations, bamboo, NTFPs (including rattan, broom stick, mushrooms, honey, aromatic and medicinal plants, etc.) will provide the rural communities with good cash-earning opportunities, and enhance their livelihoods. Improved availability of raw materials like bamboo and rattan will support non-farm enterprise development. Biodiversity will be increased and diversification of production will minimize the risk of market failure of a single crop or product.

4. Unique to India, the forest land in the north-east is owned by the communities through customary practices and laws, which provides both constraints and opportunities. The present forest administration does not have the resources and capabilities of private extension services to the privately owned and communally controlled forests. The land-tenure arrangements based on customary laws and practices do not provide documentation on the various forms of ownership, while they hamper investment in the sustainable development of the forest. The complexity of the forest policies and legislation covering the north-east states (which includes the role of the autonomous district councils) needs to be reviewed to provide a more conducive framework for development of the forest areas.

5. The model of community natural resource management in upland areas currently being tested under the ongoing IFAD project for the North-East Region appears replicable. Once more experience is gained, it can be properly assessed whether land-use planning and development of livelihoods of the rural poor through broad-based village institutions (natural resource management groups) are feasible. It does appear, however, that these groups provide a good forum for developing sustainable forest-based activities. Processing and marketing can be developed through SHGs, since linkage to the various service providers, which provide skill development, credit, etc., can be established more easily through groups.

6. **Objective.** The objective of the project will be to enhance the livelihoods of the rural poor through sustainable management of the forest resources and development of viable downstream forest-based processing industries.



7. **Project concept.** The project will focus on: (i) developing institutional arrangements to enable the poor to benefit from sustainable forest management in the context of communal ownership through development of appropriate land-tenure arrangements; (ii) elaborating appropriate technical support services for forestry development, including private-sector involvement in forestry extension; (iii) expanding knowledge of the species composition of forest trees, bamboo, rattan and NTFP in order to be able to formulate appropriate strategies and management plans combining conservation and sustainable exploitation of resources; and (iv) providing the necessary support services (market development, credit, skill development, etc.) for the development of viable forest products processing activities.

B. Microfinance and Women's Empowerment Initiatives

8. **Rationale.** Despite dramatic increases in the formal-sector banking network in India, the access of the poor to institutional credit is limited. As a result, a range of alternate microfinance initiatives have been established that can more effectively reach the poor. Foremost among these are the SHGs, which in recent years have increasingly acted as retailers of credit, with the FFIs providing loans to SHGs for onlending. Other models being tested include Grameen Bank replicators, NGOs acting as financial intermediaries between grass-roots organizations and FFIs, and federations of SHGs.

9. Experiences both inside and outside of India show that there is a strong correlation between women's access to independent income and their control over family resources. The ability to earn and control income is one of the most powerful determinants of a woman's status in the family. Expanding women's economic opportunities and increasing the income they control also results in greater economic efficiency, improved child health and nutrition, and reduced poverty. Facilitating women's access to credit through microfinance activities based on savings and credit groups has proven successful in generating additional income, jobs and small enterprise. The formation of cohesive groups, providing women with a structure for mutual support, has proved effective in empowering women to begin to strive collectively for social change. However, while small groups are valuable in the initial stages, over time women need to develop a larger power base in order to: further their social empowerment, particularly in the public sphere; develop greater efficiency in the management of their microfinance activities; and expand these activities to women in neighbouring communities. In this way, the initial high input cost to NGOs of building the social capital of the SHGs and other microfinance groups can be avoided in the expansion phase. To achieve this, however, mature SHGs need assistance in establishing broader-based institutions capable of providing a range of services to existing and new groups.

10. Since most of these microfinance initiatives principally target women, the need for an advocacy component to address women's empowerment issues is highlighted.

11. **Objectives.** The objective of the project will be to deepen the experiences gained in microfinance within the country generally, as well as under earlier IFAD projects such as TNWDP, MRCP and RWDEP. This will occur through the consolidation of small groups formed under these projects and building local institutions capable of expanding microfinance services to a wider clientele of poor women.

12. **Project concept.** The project will focus on: (i) building the capacity of federations of SHGs to provide ongoing microfinance services to the member SHGs and to extend the provision of microfinance services through promoting and nurturing new groups; (ii) providing a greater range of technical support services to members in relation to their income-generating activities; (iii) using the power base of the federation to further women's empowerment through lobbying to ensure women's entitlements and access to government services, programmes, etc.; (iv) further building the capacity of



women's development corporations to institutionalize the promotion of microfinance services for women.

C. Common-property and Natural Resource Management for Tribal and Non-Tribal Areas

13. **Rationale.** Since the poor lack resources, the ownership of land or access to other resources has been shown to improve the economic condition of the poor, both through direct benefits and through strengthening their bargaining power in the wage market. While the tribal peoples have traditional rights to agricultural land and to the use of the forests, these rights are increasingly being challenged and undermined, threatening their already meagre incomes and increasing their vulnerability. Denied unfettered access to markets, particularly for their forest products, their interactions with the market economy are frequently on highly exploitative terms. At the same time, as a result of historical events, the tribal peoples cultivate mainly low-productivity, marginal lands under difficult rainfed conditions, and lands that yield a below-subsistence standard of living (which has to be supplemented by exploitation of the forests for survival). Thus the tribal peoples need greater security of tenure and protection of their rights to common-property resources. Similarly, for many non-tribals, particularly the landless and the SCs, access to land or other common-property resources will make a significant difference to their income-earning opportunities and to the security of their livelihoods.

14. **Objectives.** The objective of the project is to improve the livelihoods of tribal/non-tribal households by facilitating access to land or other common-property resources and improved management of the natural resources presently available to them.

Project Concept in Tribal Areas

15. The project will focus on securing improved access rights to the forest lands from which the tribal peoples derive significant amounts of income and supporting measures to enhance their income from the sale of forest products. Interventions to be considered will include: (i) negotiating with forest departments for the establishment of 'community-managed' forests through leasing or other mechanisms and ensuring that these arrangements provide an equitable entitlement of the tribal peoples to the income from forest products; (ii) negotiating for the removal of monopolistic and bureaucratic controls over trade in forest products; and (iii) promoting collective institutions, e.g. cooperatives for the processing and marketing of forest products, in order to encourage greater value addition and retention of wealth in tribal areas.

16. A complementary thrust will be to improve the productivity of tribal agriculture, which is primarily rainfed. While the principles of watershed management will be adhered to, attention should be paid as far as possible to communities, where a sense of identity exists. Regarding the past history of unsustainable physical structures, all projects will need to lay greater stress on the socio-economic, rather than the engineering dimensions of watershed management. Thus a primary focus will be on the participatory planning of watershed interventions and institution-building, including mechanisms for conflict resolution. In the participatory planning process, specific attention should be given to the distributive effects of interventions focused on women. Sensitive participatory watershed development, if it allows for women's empowerment, can discriminate in favour of women: it offers the possibility of integrating women into the socio-economic and political life and into the decision-making processes and institutions of the village.

17. Within the context of watershed development, an integrated-farming-systems approach will be adopted, with appropriate interventions to address improvements in rainfed crop production, livestock production, pasture and fodder development, and afforestation.

18. Particular attention will need to be given to appropriate mechanisms for the financing of investment activities. Alternative microfinance mechanisms will need to be considered that do not



rely on the banking system, but focus instead on the development of village banking. Savings, in various forms (grain, seed, etc.), should be emphasized as a means of bringing about cultural change through inculcating the habit of thrift and not as a basis for capital formation. Where physical infrastructure works can offer cash-for-work, efforts should be made to assist recipient households to work out a plan to use part of this windfall gain for savings and investment in income-generating assets. The view will be to lay the foundation for greater future prosperity without incurring burdensome and risky debt.

19. Given the strong links between education and development, attention will also need to be given to adult literacy and to improved access to relevant education for tribal children. Similarly, improvements in health and nutrition, particularly for women and children, are required to enhance productivity and to improve the overall well-being of tribal families.

20. In the interests of empowering tribal communities and developing their self-reliance in order to further future development, the project will strengthen local institutions, particularly the newly created *Panchayat Raj* institutions such as the *gram sabha*.

21. **Organizational arrangements.** To improve efficiency, project management will be in the hands of an autonomous body. Representation of the beneficiaries on the management board will be provided and greater freedom allowed in operational procedures and in recruiting staff from government, NGO and private sectors.

Project Concept in Non-Tribal Areas

22. Where feasible, project interventions will support land distribution to the poor, particularly to the SCs under the Land Ceiling Act. The scope is likely to be limited, however, without greater political will. Hence any project for non-tribal areas will focus more on providing access to common-property resources, in the form of allocation of wasteland or water bodies to be managed as common-property regimes. The possibility of such a project will depend on finding an area that has a significant pocket of potential wasteland (or water bodies) accessible to communities that have a large scheduled caste population. In this way, land could be allocated to them without any need for resettlement. Considerable areas of wasteland are said to exist across the Deccan plateau, although much of this land has been encroached on by the well-off. Projects allocating land to the landless have been implemented on a small scale in Andhra Pradesh by the Deccan Development Society (DDS) and in West Bengal under the International Labour Organization (ILO)/Centre for Development Studies Bankura project. These models will be studied in order to derive lessons for a possible approach.

23. Although this approach will not be directed solely towards the SCs, they will be a high-priority target group for this intervention. Issues to be addressed will include: (i) the development of institutional structures to ensure that the poor can manage and benefit from wasteland development as a common-property regime. Here, the experiences of DDS and the Bankura project will be helpful; and (ii) investment support to increase the productivity of wasteland. Wasteland is most likely to be suitable for fodder and grasslands or horticulture or agroforestry. The latter only provide long-term income, and hence the opportunity for the poor to gain more immediate income from livestock production will be more attractive. Livestock production has the added benefit that market prospects for milk and meat are good. Microfinance, improvements in health, and literacy campaigns and education along with other ancillary components may be considered. Access to common-property resources complemented by watershed development will be less attractive in non-tribal areas due to targeting problems within the watershed context.

24. Possible partners for common-property resources and natural resource management might be Germany, The Netherlands and the United Kingdom.



CONSTRAINTS AND CHALLENGES FACING THE MICROFINANCE SECTOR IN INDIA

1. There is a huge unmet demand in India for microfinance services and a perceptible gap in financing the genuine credit needs of the poor. Although it has enormous outreach, the formal banking system has not been able to develop sustainable banking services for the rural poor. In spite of clear support from the Reserve Bank of India (RBI), the linkage between SHGs and local banks is not occurring. The local banks are not able to meet the growing demands of the SHGs. Bankers are yet to be fully convinced about the potential of the groups and their capacity to manage funds. There is a need for successful demonstration of lending to the poor on a much larger scale before local commercial banks will become convinced to take it up as a business option.
2. Moreover, the financial products and practices on offer from the banks are not customer-driven and do not meet the needs of poor rural households. The orientation, attitude and business processes and practices of the formal banking system have to undergo a major transformation if FFIs are to deliver sustainable financial services to the poor. Partly because of the enormous scale of the banking sector and partly because of the nature of the change required (which involves hard-to-achieve attitudinal change), this is not going to happen quickly. Nevertheless, despite the difficulty, the challenge of transforming the formal banking sector needs to be vigorously pursued since an alternative credit system alone cannot fill the void.
3. The need to bridge the increasing gap between demand and supply has seen the emergence of alternate microfinance institutions (MFIs). The vast majority of them are NGOs that found themselves drawn into financial intermediation as a matter of expediency. As a result, the majority of the actors in the microfinance sector are non-profit organizations whose legal form does not make them the best type of agency to carry out microfinance on a long-term, sustainable basis. They risk violating the tax laws and compromising their charitable status. Many of these NGOs are also welfarist in their approach and lack the commercial orientation necessary to make microfinance sustainable. Most of them also lack the organizational culture and internal systems to function effectively as financial intermediaries. Because of the lack of credentials and of a supervisory or regulatory system for these MFIs, they are handicapped in accessing funds from FFIs who are wary of lending to such institutions. Hence they remain dependent on donor grant funds. These alternate MFIs are also isolated and scattered and hence there is a lack of information dissemination and sharing of best practices within the country and internationally.
4. These handicaps point to the need to develop a cadre of soundly based, specialist MFIs. But here the problem of the lack of an appropriate legal form arises as a major constraint. At present, the only available legal options are to be incorporated as a company, a non-banking financial institution or as a bank. The latter two require amounts of registered capital that are beyond most potential MFIs.
5. In order to fill the yawning credit gap more satisfactorily, a three-track approach may be adopted comprising mutually complementary strategies, namely: (i) mainstream FIs (apex DFIs, CBs and RRBs), which should be given a supportive policy and institutional environment. The major issues to be solved are interest rate regulation and incentives to staff; (ii) specialized MFIs that should be encouraged to expand their services with a supportive regulatory framework and financial linkages to enlarge and expand their services; and (iii) establishing a range of community development financial institutions, owned and managed by the communities, e.g. SHGs, clusters and federations of SHGs.



6. In addition, emphasis must be placed on creating the conditions that allow banks to expand their microfinance portfolio. This involves the following issues: (i) further deregulation of interest rates for small loans and microloans by commercial banks (as has been done for RRBs) and encouraging efficient pricing of small loans. This means accepting the fact that small loans may cost more – thus far the financial sector reform process has not been prepared to tackle this difficult issue; (ii) providing incentives to field and branch staff to serve microfinance customers. This may require dialogue with the trade unions; and (iii) delinking poverty-linked subsidized credit programmes from banks.

7. Compared with the rest of South Asia, India is a latecomer to the microfinance field. Although the Self-Employed Women's Association (SEWA) and the World Wildlife Fund for Nature (WWF) introduced microfinance as part of their wider range of services for poor women in the late 1970s, the real genesis of microfinance arrived in the mid-1980s. Mysore Resettlement and Development Agency (MYRADA), one of the prime movers in the microfinance movement, began to experiment with the formation of self-managed savings and credit groups, having realized that the existing credit system through banks and cooperatives was largely inappropriate to the needs of the poor.

8. IFAD's support to TNWDP at the end of the 1980s, in partnership with MYRADA, contributed to the development and significant scaling-up of this initial experiment with the formation of over 5 000 SHGs. The microfinance movement really only began to gain momentum in the 1990s with the SHG-bank linkage programme (as is being strongly supported under the IFAD-assisted Maharashtra Rural Credit Project (MRCP)) and the emergence of other alternative microfinance models. However, given the size of the country, the field of microfinance in India has yet to grow to any significant scale, compared either to the demand (with over 75 million urban and rural poor households needing microfinance services) or to the scale of MFIs in other countries in the region (such as Bangladesh, Indonesia and Thailand).

9. Overall, microfinance in India is presently at a critical point. The policy environment is increasingly more friendly, with the acknowledgement that microfinance is an effective strategy for poverty alleviation and the promotion of self-employment. Still there are major issues to be resolved along the development path, including:

- (i) the existence of outdated laws and regulations;
- (ii) the failure of NGOs/MFIs to recognize the need for providing financial services to the poor on a sound, viable and sustainable basis;
- (iii) the indifference in the sector with regard to the development of specialized financial systems and intermediaries tailored to the microfinance context; and
- (iv) the failure of the formal banking system to appreciate the credit-worthiness of the poor and accept the utility of NGOs/MFIs as an appropriate channel for the flow of credit.



Chart I. Rural Poverty in India
Incidence and Significant Changes among NSS Regions
Increase/decrease between two periods of 1987/88 and 1993/94

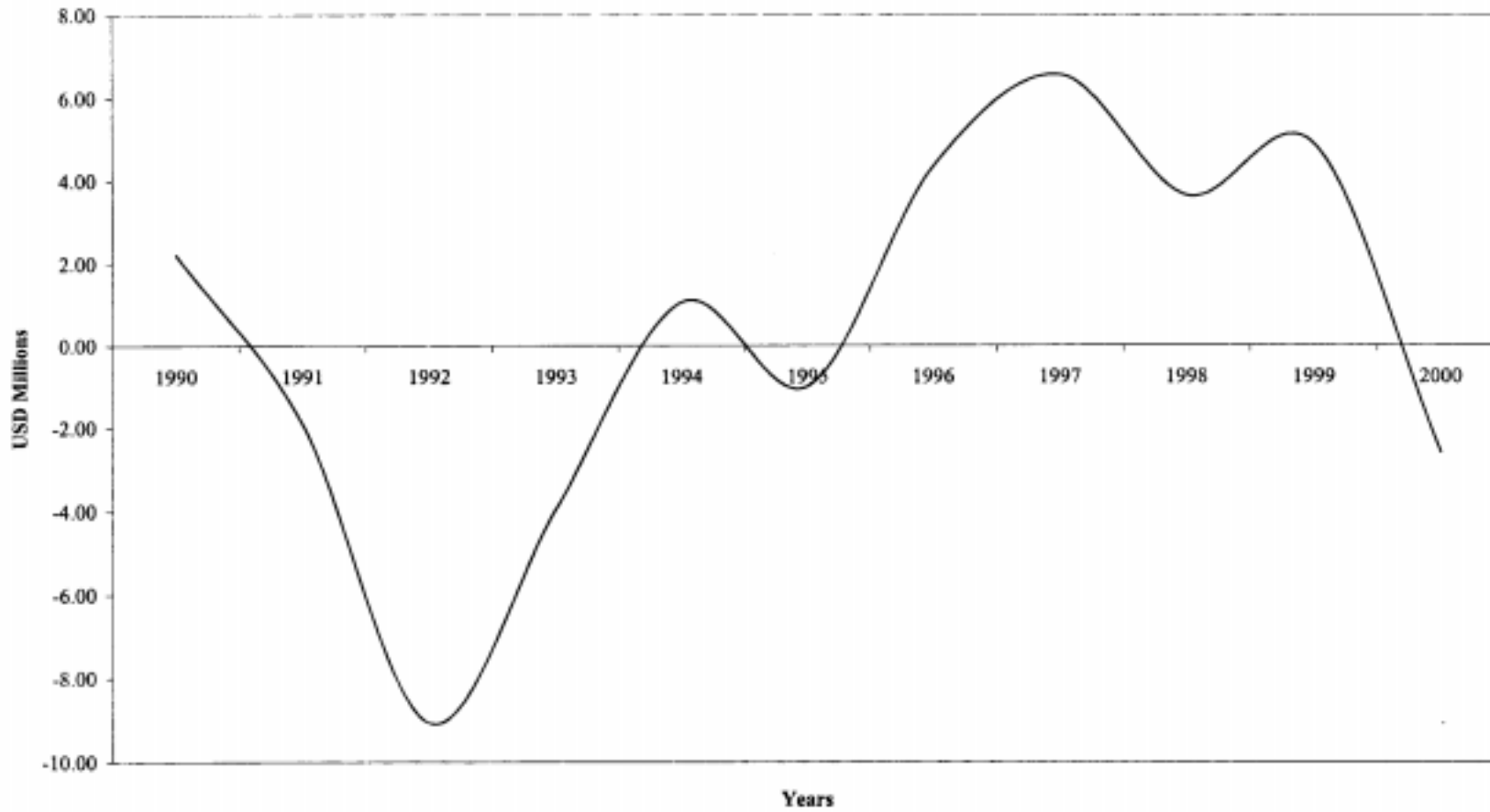


Note: * High denotes head count ratio of 40% and above in 1993/94
* NSS - National Sample Survey

Classified using data provided by Dubey and Gungopadhyay, 1998

Source: IFAD

Chart 2: Net in flow of Funds from India to IFAD



Source: IFAD



