Impacts of the National Rural Livelihoods Project on financial inclusion

Group-based livelihoods programmes have been implemented in many parts of the world to meet development goals, primarily poverty reduction. In India – a country with a long history of groups working towards a common economic cause – the Ministry of Rural Development launched the Deen Dayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM) in 2012 with similar objectives. Within the ambit of this mission, the National Rural Livelihoods Project (NRLP) was formed to build capacity and foster an enabling environment to support scale-up. Women's self-help groups (SHGs) were formed in select blocks of 100 high-poverty districts across 13 states, and efforts are underway to reach the remaining districts and states.

Financial inclusion of poor households and women is integral to DAY-NRLM and a direct means through which the programme attempts to alleviate poverty. Almost a decade after the programme began, a team of researchers from Stanford, 3ie and Vrutti interviewed 27,000 respondents from 5,000 SHGs across nine states to evaluate NRLP. The programme increased household income and savings by improving access to finance, increasing the number of income sources and reducing dependence on informal loans. This brief summarises key findings about how NRLP impacted financial inclusion in rural India.

Highlights

- Twenty-seven thousand respondents from approximately 5,000 SHGs across nine states were interviewed.
- Respondents were from poor rural households with low savings, high indebtedness and limited access to formal financial institutions.
- The programme improved access to SHG loans and reduced reliance on high-cost debt, leading to a decline in overall interest rates from informal sources.
- Federation significantly improved credit access for SHG members.

Methodology and sample

This evaluation covered the nine states of Rajasthan, Uttar Pradesh, Jharkhand, Odisha, Chhattisgarh, Madhya Pradesh, Maharashtra, West Bengal and Bihar.[1] Data from the national and state programme Management Information System was combined with in-depth interviews with block officials to select a representative sample of villages for the survey.

Data on household-level outcomes was gathered by surveying SHG members and non-members. The effect of federations was measured by surveying respondents at SHG, VO, CLF and village levels. A separate questionnaire was administered to married women to calculate empowerment outcomes.

The DAY-NRLM was not implemented in one go. Initially certain blocks were identified in chosen districts, and within them the programme was implemented in select villages. It was scaled up to all other blocks and villages in later phases. The areas where DAY-NRLM was initially implemented in 2011–2012 are called ‘early villages’ and the ones where it was last implemented, after four or more years, are called ‘late villages’.

The evaluation team used the difference-in-difference methodology, exploiting differential timing of programme implementation across blocks, and across villages within blocks, to assess programme effect on household-level outcomes. Impact was calculated by comparing differences in outcomes between early and late implementation areas. Adequate controls were put in place to ensure results are not affected by variation in timing of initiation and stage of programme implementation, across geographies.

Context

The effects of access to credit have been evaluated by several researchers utilising randomised control samples. These studies, summarised by Banerjee and colleagues (2015), suggest that the impact of microfinance access is moderately positive, but not transformative. Meager (2019) established the external validity of these studies, based on a meta-analysis of their effects. The conclusion regarding moderate returns on microfinance programmes was reinforced by systemic evidence reviews (Duvendack et al. 2011).

Although credit and savings are an important component of DAY-NRLM, it differs from traditional credit initiatives in that it doesn’t operate as singular groups but as a federation of SHGs. This structure builds community and institutional capacities. Our evaluation showed that the programme improved access to credit through financial inclusion.

Envisaged pathway to change poverty reduction through financial inclusion

Inputs

0–6m
- SHG creation
- Opening bank account
- Capacity building

6–24m
- Federating into VOs
- Infusion of funds
- Capacity building

24m+
- Bank credit
- Capacity building

Activities
- Savings
- Internal lending, with amounts increasing over time

Initial outcomes
- More savings
- More loans from SHGs and other formal sources
- Fewer informal loans

Final outcomes
- More assets
- More investments
- More consumption
- More income sources
- More labour force participation

Impact
- More income
- More empowerment
- Less vulnerability

Key findings

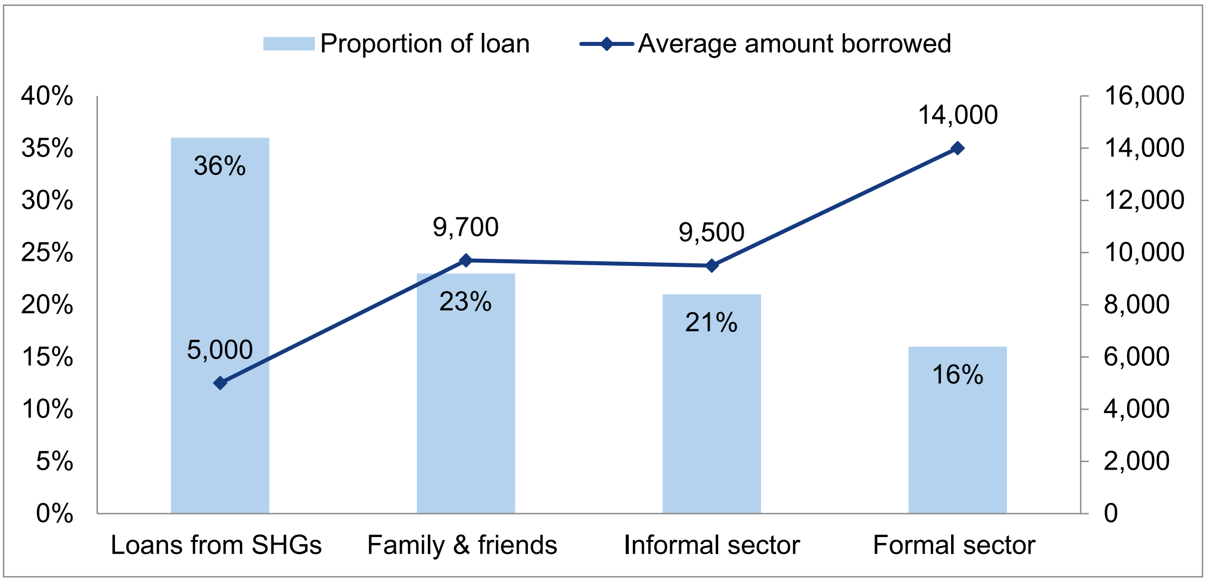
Socio-economic profile: The survey sample was poorer than the national average, and had low savings, high indebtedness and limited access to formal financial institutions. Sixty-three per cent of households belonged to either scheduled castes (32%) or scheduled tribes (31%), compared to national averages of 16.6% and 8.6%, respectively[1]. Average household expenditure (INR 124,000) was much higher than average income (INR 75,000), creating reliance on loans.

Access to financial institutions: Surveyed villages had limited access to formal financial institutions and markets. Less than half the villages reported a bank branch (46%) and less than a quarter reported a market or bazaar (22%) within the village.

Saving patterns: A significant proportion of households (64%) reported saving relatively small amounts in institutional sources; 59% in banks (average amount INR 7,100) and 41% in SHGs (average amount INR 1,712) and other financial institutions. Average cash holding per household was INR 1,600.

Borrowing patterns: Seventy per cent of households reported outstanding debt (average INR 38,307). While SHGs were a major source of small loans to many households, they turned to other formal and informal sources for larger loans (Figure 1). Fourteen per cent of households reported high-cost loans, with average interest rates of 4% per month.

Figure 1: Sources of loans



Impact

The evaluation found that DAY-NRLM reduced reliance on high-cost debt, leading to a decline in overall interest rates from informal sources. Federation significantly improved credit access.

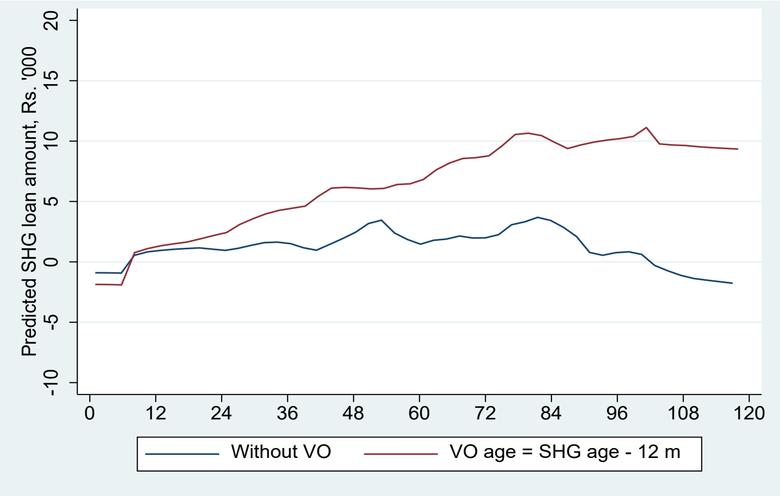
Longer programme exposure benefitted some groups: Overall, length of programme exposure did not change households' access to SHG loans. Members of late SHGs were able to access as much SHG loans as those of early SHGs. However, women belonging to scheduled castes and scheduled tribes in early villages benefitted more than the same groups in late villages.

Decline in informal loans and interest rates: Regression results suggest a significant decline in the proportion of households reporting high-cost informal debt. Among households with outstanding debt, 32% fewer households report high-cost loans as a result of programme implementation. Declining reliance on informal loans reduced their average annual interest rates by five percentage points.

Benefits of federation: Federation into VOs increased borrowing by women from SHGs. While results also suggest that SHG loan amounts increase with age, the effect is weaker and tapers off with time. Figure 2 shows regression analysis predicting the comparative effect of age and federation on the amount of loans accessed by women.[1] Consistent with these effects, regression results also reveal a strong positive effect of VOs on productive assets and their value. In contrast, the effect of SHG age on these assets is negative.

While overall reliance on informal loans decreased, federation increased amounts of loans accessed by male members from informal sources.

Figure 2: Predicted SHG loan amounts, with and without VOs



Factors affecting access to credit

SHGs' capacity to give loans: SHGs are entitled to three main resources – Revolving Fund (RF), Community Investment Fund (CIF) and bank loans – to further give loans to members. They must meet certain quality benchmarks to access each of these. Most of the surveyed SHGs had accessed all three (Figure 3). SHGs formed in the initial years of programme implementation took longer to access them. Age and federation both improved chances of accessing funds. Regardless of age, federation significantly helped SHGs avail themselves of funds. This may be attributed to VOs' role in facilitating linkages between SHGs and banks as well as ensuring that SHGs meet the quality standards that are required to access other funds. For example, SHGs linked to VOs report higher adherence to the Panchsutras.

SHGs' lending patterns: To measure the effect of age and federation on lending we assessed the performance of all SHGs over the past 12 months. Older and federated SHGs naturally gave out higher loan amounts. However, older SHGs lent higher amounts to fewer members, while younger SHGs gave lower amounts to more members. SHG women from both groups spent similarly on health expenses. Members from older SHGs used more of these high-value loans for productive purposes, while members from younger SHGs spent more on consumption (Figure 4). This pattern may be attributed to older SHGs becoming better at screening out defaulters, or perhaps becoming more inequitable with age.

Effect of distance from markets and banks: While DAY-NRLM improved overall access to credit, the programme's impact was greatest for villages that were more distant from markets. Such households reported more loans, lower reliance on informal credit and higher savings. Programme returns were lower in villages that were more distant from banks. This could be because average amounts lent by SHGs were much lower than from other sources (Figure 1).

Figure 3: Resources accessed at time of survey

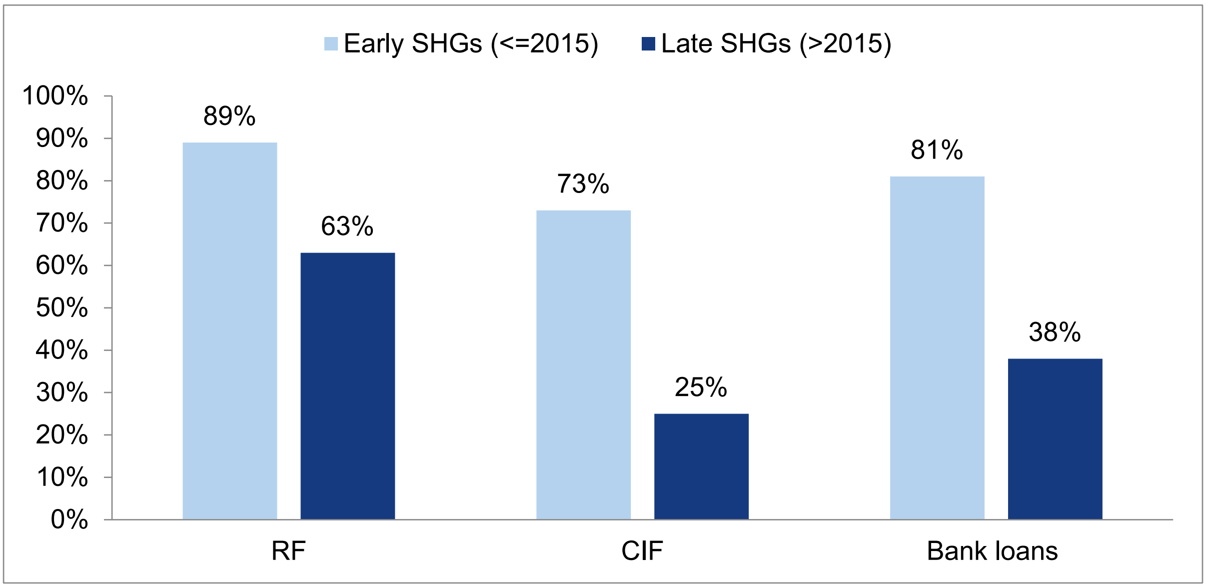
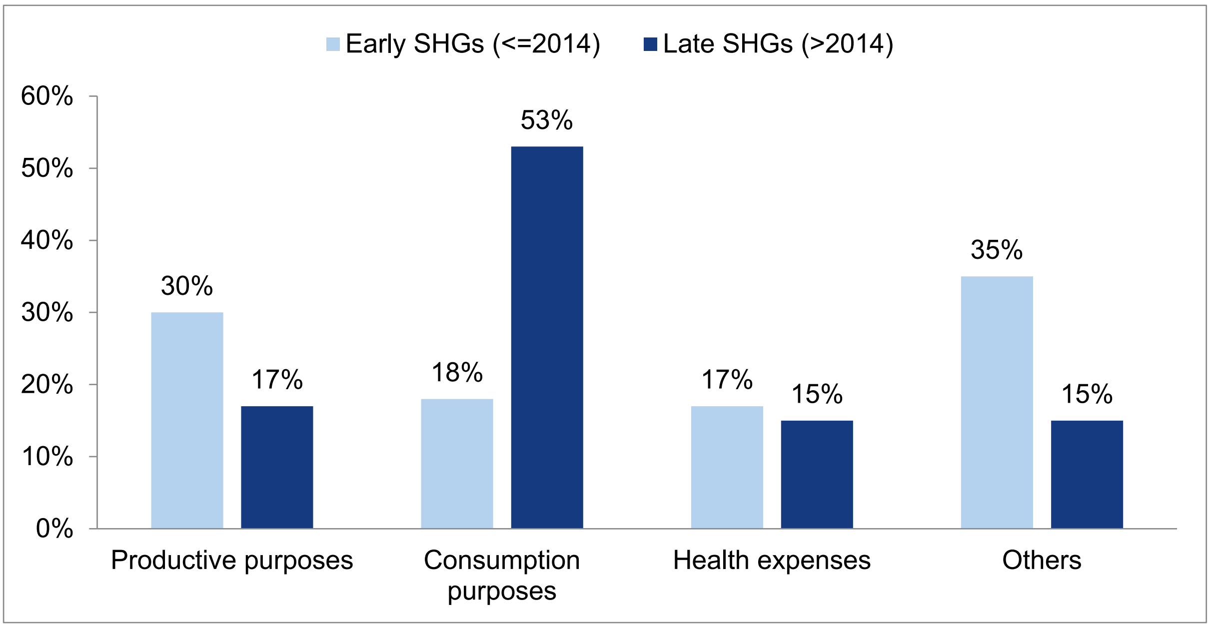


Figure 4: Loan utilisation



Recommendations

- Reducing delays faced by eligible SHGs in accessing programme funds and bank loans will lead to improved access to finance when it is needed most.
- Ensuring more equitable distribution of loans will lead to greater programme benefits.
- This has to be matched by supporting SHG members to improve their repayment capabilities. Thus, focussing on non-credit livelihood activities and trainings is equally important.

Bibliography

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Endnotes

[1] Unless specified, findings are drawn from seven states, with the exclusions being Bihar and West Bengal.
[2] Census of India 2011.
[1] VO age is predicted as one year (12 months) less than the age of the SHG; this provides evidence of the amount of SHG loans had the SHG been federated into a VO one year after its formation.

About this note

This brief was authored by Harsh Vardhan Sahni with inputs from Bidisha Barooah. The author is solely responsible for all content, errors and omissions. This note was commissioned by the Ministry of Rural Development to provide an overview of the results of 3ie's multistate impact evaluation on financial inclusion. It is being made available as produced for wider use.

For more details on the context and results, we recommend reading the full report; Impact Evaluation of the National Rural Livelihoods Project (October 2020) by Anjini Kochar, Bidisha Barooah, Chandan Jain, Geeta Singh, Nagabhushana Closepet, Raghunathan Narayanan, Ritwik Sarkar and Rohan Shah.

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