Promoting Entrepreneurship to Alleviate Poverty in India: An Overview of Government Schemes, Private-Sector Programs, and Initiatives in the Citizens’ Sector

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In recent years, entrepreneurship has achieved significance as a driver of economic growth and poverty alleviation. This article focuses on various initiatives and entities that promote capacity building and entrepreneurship development among the poor in India and pays special attention to...
examining the ways in which these entities can better coordinate their efforts. The article first reviews the general literature on entrepreneurship and poverty eradication followed by a conceptual framework that models the efforts of the Indian government, the private sector, and the citizens’ sector in promoting entrepreneurship and capacity building. This conceptual framework is utilized to discuss efforts of social entrepreneurs and self-help groups (SHGs) in India as well as to present a general sectoral assessment of the poverty-alleviation schemes in the subcontinent. The article’s conclusions emphasize that neither markets alone nor governments alone are enough to eradicate poverty, especially in the Indian context. Instead, a trisectoral approach that recognizes the complementarities between the government, the private sector, and the citizens’ sector and encourages these sectors to collaborate may be vital to the common goal of capacity building among India’s poor. © 2012 Wiley Periodicals, Inc.

Introduction

Global poverty is pervasive and enduring. New poverty estimates published by the World Bank reveal that nearly half the world’s population (2.8 billion people) is forced to survive on less than $2/day, with nearly 20% of the world’s population living on less than $1/day. In the past few decades, governments have committed many resources toward poverty alleviation. Other solutions to ending international poverty have relied on grassroots and humanitarian efforts, all of which are predominantly aid-based initiatives. In recent years, poverty alleviation has moved to the center of the global dialogue as the primary overriding objective of development and not simply as a “trickle down” residual outcome.

For at least four decades since the Second World War, the onus of poverty eradication was placed on the state, as government policies and programs were viewed as appropriate strategies to address poverty concerns. But in recent years, attention has shifted away from macro models of state dominance to models that focus on people participation in tackling the menace of poverty. Entrepreneurship has regained its significance not only as a driver of economic growth but also as a mechanism that can enable an escape from poverty. The emergence of the entrepreneur as a “change agent” in development and management literatures has coincided with a general disillusionment with state-dominated policies, which in turn have been associated with corruption and rent-seeking behaviors that *ceteris paribus* increase the level of poverty (Naudé, 2010). This article provides a framework for understanding initiatives in the private sector, civil society, and various government schemes that are in place in India to promote capacity building through entrepreneurship, with an ultimate objective of poverty reduction.

The article’s focus on India is justified on several grounds. While India is currently being lauded as a successful growing economy, many facts about the country remain unchanged. Even after six decades of planned economic development, two decades of economic reforms, and presence in the global information technology sector, India has failed to reduce the number of people living below the poverty line. While the percentage of people below the poverty line has declined from 36% in 1993–94 to 27.5% in 2004–05, the total number of people below the poverty threshold is still more than 300 million and comparable to the population of the entire Euro Area (314.6 million). India has been growing at an average annual rate of 10.2% during 2002–07 and an estimated 7% during 2009–10 in the face of the worst-known economic slowdown. These facts clearly validate the internal strength and resilience of the economy. But, despite these impressive growth rates, poverty in the subcontinent remains an issue. Even though the incidence of poverty has declined in India, one-fourth of the population still remains under poverty. According to a 2005 World Bank estimate, 42% of India falls below the international poverty line of $1.25 a day (PPP; in nominal terms, Rs. 21.6 a day in urban areas and Rs. 14.3 in rural areas); Although the Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas. According to a recently released World Bank report, India is on track to meet its poverty-reduction goals; however, by 2015, an estimated
53 million people will still live in extreme poverty, and 23.6% of the population will still live under $1.25 per day. This number is expected to reduce to 20.3%, or 268 million people, by 2020. However, at the same time, the effects of the worldwide recession in 2009 have plunged many more Indians into poverty. Above all, the Indian Planning Commission is embarking on a major reassessment of poverty levels in the country that would effectively increase the national poverty rate from 27.5% to 37.2%. By this criteria, the number of people “officially” categorized as poor will be closer to 408 million. Quite simply, no matter how it is defined or measured, poverty is a serious problem in India.

This article focuses on various initiatives and entities that promote entrepreneurship development among the poor in India and pays special attention to examining the ways in which these entities can better coordinate their efforts. To this end, the article is organized as follows. The following section will provide background and examine the general literature on entrepreneurship and poverty eradication. The third section presents a conceptual framework that models the efforts of the government, the private sector, and the citizens’ sector in promoting entrepreneurship and capacity building for alleviating poverty. The fourth and fifth sections operationalize the conceptual model and its trisector focus within the Indian context. The fourth section discusses the major government schemes designed to promote entrepreneurship among the poor. This section also highlights poverty-eradication initiatives within the private sector and the citizens’ sector, including a discussion on social entrepreneurs and self-help groups (SHGs). The fifth section presents a general assessment of the various poverty-alleviation schemes in India by sector, and the sixth section concludes. The article’s conclusions emphasize that the lackluster success of poverty-eradication efforts in India may be attributed to nonrecognition of complementarities between the Indian government, the private sector, and the citizens’ sector.

### Background and Literature

Entrepreneurship has been traditionally characterized as one of the four factors of production in economics. According to Schumpeter (1934), entrepreneurs are innovators that disrupt existing equilibria. Kirzner (1973) views entrepreneurs as recognizers of opportunities. Henrekson (2007) notes that entrepreneurs or entrepreneurial ventures contribute to renewal and change in the economy. Wennekers and Thurik (1999) define an entrepreneur as someone who (a) perceives and creates new economic opportunities and (b) introduces ideas in the market in the face of uncertainty by making decisions about location, form, and the use of resources and institutions. In a recent report, the National Knowledge Commission of India (NKC, 2008, p. 1) defines entrepreneurship as “the professional application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (distinct from seeking self employment as in a profession or trade), thus to pursue growth while generating wealth, employment and social good.” Given our focus on India, we will employ this definition of entrepreneurship throughout the article.

There is a plethora of literature that supports the association between entrepreneurship and economic development via employment, innovation, and welfare effects (Baumol, 1990; Schumpeter, 1934; Wennekers & Thurik, 1999). Country-specific empirical literature (Davidsson, 1995; Reynolds, 1999) has highlighted a positive association between firm formation (entrepreneurial activity) and job creation (as a proxy for economic growth). Where cross-sectional studies of the entrepreneurship-growth relation are concerned, literature suggests that the impact of entrepreneurial activity on economic growth varies with the stage of economic development of a country—while entrepreneurial activity has a positive effect on the economic growth of rich (as defined by per capita income) countries, it has a negative effect
in the case of poor countries. This implies that entrepreneurial activities create leakages in the system and are value-reducing activities for poor countries (Sternberg & Wennekers, 2005). Studies also note that the impact of entrepreneurial activity on economic growth varies with the nature of the underlying activity. For example, Wong, Ho, and Autio (2005) observe that controlling for the macroeconomic environment, only “high-growth” potential total entrepreneurial activity (TEA) has a positive impact on economic growth.

Many scholars of entrepreneurship view the huge size of the informal sector and the presence of entrepreneurs in this sector in a relatively negative light. For instance, Evans and Leighton (1990) and Reynolds (1999) discuss a possible “refugee” syndrome where unemployment and low economic growth induces individuals to entrepreneurial outlets. Van Stel and Storey (2004) suggest that the refugee effect may be producing the kind of entrepreneurship that does not generate any economic growth. However, Bennett (2009) proffers the notion that the informal sector entrepreneurship may be a valuable “stepping stone” for individuals to escape poverty. In his theoretical model, Bennett (2009) builds on the idea of the uncertainty of expected returns that characterize entrepreneurial activities and impact the choice to become an entrepreneur. In the presence of uncertainty entrepreneurs in developing economies may choose to begin in the informal sector in order to gauge the potential of their venture. Moreover, informal-sector entrepreneurship can also serve as a “consolation prize” for entrepreneurs who were not able to be successful in the formal sector. Thus, informal-sector unemployment can be an incubator or a catchment area for entrepreneurship. Personal characteristics and socioeconomic background determine latent entrepreneurship; environment opportunities/constraints are critical in turning this latency into reality. The basic economy of a region, including labor market prospects, public policy measures, and industrialization, is important in creating pull and push factors (Storey & Strange, 1992). Unemployed workers are pushed into self-employment due to the need for survival, while prosperous persons are pulled into self-employment by economic potential and the ability to generate significant employment opportunities.

Another stream of literature validates the importance of entrepreneurship by positing that entrepreneurs can be important to a country’s development because they represent a form of human resourcefulness (Couyoumdjian & Larroulet, 2009). Preliminary research by Amorós (2009) suggests that entrepreneurial activities have a positive effect on human development (i.e., in reducing poverty). Obviously, entrepreneurship activities do not constitute the “magic bullet” for poor nations because these economies must also work to achieve solutions to macro-institutional impediments issues such as the existence of corruption and the lack of financial depth that can block the positive associations between entrepreneurship, economic growth, and the absence of poverty (Chipalkatti & Rishi, forthcoming).

While theoretical models somewhat validate that entrepreneurship is welfare-enhancing and provides entrepreneurs with opportunities to escape from poverty, empirical research on this association is limited. Tamvada (2009) has backed some of these claims with empirical findings from India. The author notes that entrepreneurs who employ others (high-growth entrepreneurial activity) have the highest welfare in terms of consumption, while self-employed individuals who work only for themselves (own-account workers) have slightly lower returns than salaried employees. According to the expected utility theory, individuals will choose self-employment when they expect higher returns relative to wage employment. Further, individuals select into entrepreneurship despite low returns for nonpecuniary reasons. Tamvada’s (2009) analysis has some implications for poverty-alleviation policies. While one cannot deny the importance of job creation as a poverty-reduction tool, Tamvada’s (2009) analysis also establishes that self-employment results in higher welfare gains than casual work, which in turn suggests that entrepreneurship may improve welfare and contribute to less poverty.

Turning our attention to the Indian context, it is worth noting that India boasts of a long tradition of entrepreneurship by the Bania families of the traditional trading castes. It is predominantly the Aggarwals and Guptas in the north; the Chettiar in the south; the Parsees, Gujarati Jains and Banias, Muslim Khojas, and Memons in the west; and the Marwaris in the east, and, in fact, across the country (Das, 1997). The Indian diaspora is also known for its entrepreneurial zeal. Recent articles in the popular press have also extolled the Indian attitude of Jugaad (a Hindi word that means roughly to provide or arrange by thinking outside the box and innovatively) as an entrepreneurial trait.

The following section presents a model that conceptualizes a triangular complementarity among the public-sector, private-sector, and citizens’-sector initiatives that are designed to promote capacity building and entrepreneurship development among the poor in India. The model distinguishes between schemes that are promoted by the government sector and initiatives that emerge in the private sector as well as in the citizens’ sector.
A General Conceptual Model

A conceptual model (Figure 1) is presented to highlight the causal relationship between entrepreneurial activities, capacity building, and poverty alleviation. Our conceptual framework consists of three main sectors—the government sector, the private sector, and the citizens’ sector.

The government sector attempts to alleviate poverty with a two-prong strategy. First, the government attempts to attack poverty by promoting entrepreneurship through institutional support, policies, training schemes, and financial and marketing support, as well as capacity-building schemes by providing directed funds and resources. Second, it offers various employment schemes for the poor for predefined wages at the subsistence level. The schemes are for those who are educated but unemployed, in rural areas, marginal farmers, agricultural labor, women, and those who are the poorest among the poor. The employment schemes provide an immediate but short-term solution to the menace of poverty, whereas the entrepreneurship promotion schemes and capacity building aim at creating a long-lasting solution. It may be true that many of these entrepreneurs do not either generate jobs for others or create wealth (Bannerjee & Duflo, 2006), but it cannot be ignored that they become self-sufficient through entrepreneurial activity.

FIGURE 1  Entrepreneurship Development and Poverty Alleviation in India: A Conceptual Model of Trisector Initiatives
Social entrepreneurs are primarily interested in the impact they make on society and not only contribute to poverty eradication through job creation, but also provide capacity building via microcredit, technical assistance, and job training.

As displayed in Figure 1, the private sector has been partitioned into two overlapping sectors (social entrepreneurs and business entrepreneurs). While business entrepreneurs may have an impact on poverty by creating jobs, social entrepreneurs are distinguished by their focus on social (and environmental) goals in a financially sustainable form. The overlap in our model attempts to capture the reality that many (not all) social enterprises are founded on business models that combine a sales-generating objective with social-value generation. While there are profit-oriented business enterprises with a “social aim,” every business enterprise is not a social enterprise and vice versa. In our typology, a for-profit venture set up in a poor area that employs low-wage labor does not classify as a social enterprise until and unless such an enterprise is providing direct services that are aimed at poverty reduction such as the provision of training along with employment, affordable products or services, credit, and technical assistance to the poor. Social entrepreneurs are primarily interested in the impact they make on society and not only contribute to poverty eradication through job creation, but also provide capacity building via microcredit, technical assistance, and job training.

The third sector is the citizens’ sector that includes a broad range of citizen activities that are outside the direct control of the government such as unions, community associations, voluntary organizations, nongovernmental organizations (NGOs), and self-help groups. Foley and Edwards (1996) and Bornstein (2007) in particular have noted the transformative power of this sector in advocating social change with creativity, tenacity, and motivation. The entities in the citizens’ sector are involved in supporting, prompting, and creating micro and small enterprises by providing microcredit and technical assistance, as shown in Figure 1.

Our model also highlights the intersections between social entrepreneurs who operate in the citizens’ sector and those who operate in the private sector. Just as the business sector evolved from being tightly regulated to one that enjoys relatively unfettered entry, social entrepreneurs in the citizen sector have seen a reduction of barriers to entry (government support, “citizen sector”-friendly laws, academic importance university curricula, and respect along with social acceptability). However, situating social entrepreneurs in one sector or another is a dilemma and constitutes a truly gray area in this line of research. Many consider social entrepreneurs to be part of the citizens’ sector, as these entrepreneurs are motivated by social objectives and not profit. Others consider such entrepreneurs to be more part of the private sector as they add a social element to our traditional understanding of profit-oriented business.

Ultimately, we opine that the activities of governments, the private sector, and the citizens’ sector can be complementary and if such complementarities are recognized, they are capable of creating a synergistic effect in building capacity among India’s poor, thereby enabling the impoverished to escape poverty.

The following two sections will explain the activities of the above-described three sectors within the context of poverty reduction in India.

Promoting Entrepreneurship for Poverty Alleviation in India

Government Schemes

Soon after achieving independence, the Government of India started the planned economic development of the country and as a corollary undertook a comprehensive state-supported program for small business support, scientific research, and entrepreneurship development. The Small Scale Industries Development Organization (SIDO) was set up in 1954, the National Small Scale Industries Development Corporation (NSIC) was set up in 1955, and the Khadi and Village Industries Commission (KVIC) was set up in 1956. The primary focus was on the following areas:
1. Promotion of artisan-based industries;
2. Promotion of available resources-based industries;
3. Implementation of District Industries Centers (DICs) to support the promoters with infrastructure and facilities; and
4. Marketing support to the small-scale industrial units through various agencies like the Khadi and Village Industries Commission, the National Small Industries Corporation, and the like.

The machinery that evolved during the first decade of economic planning was further accentuated and expanded during the later Five Year Plans. The draft for the Third Five Year Plan (1961–1966) emphasized promotion of entrepreneurship as a force to fight against poverty. The measures to be adopted included industrial development in rural and urban areas, establishment of public-sector projects in less developed regions, and planned development of villages and small industries in villages, small towns, and socioeconomically less developed regions in order to encourage small-scale entrepreneurship.

The Fifth Five Year Plan (1974–1978) emphasized the appropriate allocation of investment outlays for public agencies actively engaged in the field of entrepreneurship promotion. The plan promoted packages, incentives, and finances to prospective entrepreneurs in backward areas and attempted to introduce institutional reforms to foster entrepreneurship. Several efforts in the government sector focused on the establishment of various organizations and schemes at the national and state levels to promote entrepreneurship through training, skill enhancement, technical institutions, faculty training, and infrastructure support. The following government schemes are worth mentioning in this regard, as they directly touch the poor sections of society to foster self-reliance among them by promoting and supporting entrepreneurship.

- The Rural Entrepreneurship Development Institute (REDI) was set up in 1983.
- The Rural Management and Entrepreneurship Development Centre (RMEDC) was set up in 1983.
- The Institute of Entrepreneurship Development was set up in 1996 in various economically backward states, including UP, Bihar, Orissa, MP, North East, and Rajasthan.
- The National Science and Technology Entrepreneurship Development Board (NSTEDB) and National Council for Science and Technology Communication (NCSTC) were established in 1982 to promote and develop science and technology-based entrepreneurship in the country.

Governmental support in the form of technical assistance, supply of machinery and equipment, and marketing assistance to small entrepreneurs were key issues in the 1990s. For instance, the Government of Madhya Pradesh State decided to allot land shed to the poor on 99-year leases, on the condition that the land would be used for developing small enterprises. In recent years, three technology parks were set up at Poona, Nilgiri, and Hyderabad to attract nonresident Indian (NRI) entrepreneurs. The prime objective was to aid the development of industries in order to create employment opportunities without any bureaucratic interference.

The government has also promoted various employment generation schemes, especially for rural youth. Noteworthy among these are Pradhan Mantri Rozgar Yojna (PMRY), Gram Swarozgar Yojna (Village Self Employment Scheme), Rozgar Ashwasan Yojna (Employment Guarantee Scheme), Swarn Jayanti Swarozgar Yojna (Golden Jubilee Self Employment Scheme), Swarna Jayanti Shahari Rozgar Yojana (SJSRY), and Swarnjayanti Gram Swarozgar Yojana (SGSY). The objective of the SGSY is to bring the assisted swarozgaris (self-employed) above the poverty line by providing them income-generating assets through bank credit and government subsidies. The government has recently revamped the SJSRY with effect from April 1, 2009. The scheme provides gainful employment to the urban unemployed and underemployed poor, by encouraging the establishment of self-employment ventures by the urban poor. This scheme also provides wage employment by utilizing poor laborers in urban areas for construction of socially and economically useful public assets (Government of India, 2010).

In spite of all these attempts in the government sector, the fact remains that India still suffers with the stigma of more than one-fourth of her people living below the poverty line. The next section reviews private-sector projects as well as some innovations in the citizens’ sector that are aimed at poverty eradication. We will first discuss social entrepreneurship and highlight the activities of Ela Bhatt, a prominent social entrepreneur in India. Then, we describe the emergence and operations of self-help groups that operate solely within the citizens’ sector and provide financial services to the poor.

Private-Sector and Citizens’-Sector Initiatives

Social Entrepreneurs

Several scholars have begun to focus on the role of social entrepreneurs in poverty eradication. Bornstein (2007) describes such entrepreneurs as transformative forces—as people with creativity, tenacity, and motivation
to address the pervasive ills of society. His research has documented several examples of social entrepreneurship, focusing on the strategies, organizational talents, and personal qualities that help explain the success of social entrepreneurs. As our conceptual framework illustrates, the activities of social entrepreneurs can overlap those in the for-profit business sector, as well as those that are in the social goal–focused citizens’ sector. The degrees to which social entrepreneurs pursue social impact as opposed to profitability vary considerably, but in all cases financial sustainability is fundamental. However, external investors in social enterprises usually do not have high return expectations and are often willing to forgo returns if they can see significant social benefits from an enterprise’s activities.

Poverty alleviation in the social entrepreneur’s eye begins with a focus on the self-employed poor who lack the capacity to benefit from their productive activities. As an example, Mohammad Yunus (founder of the Grameen Bank) concentrated on providing microcredit to the landless poor so they could purchase income-generating assets and increase their capacity to produce and trade. Yunus’s activities gave impetus to a new “microcredit industry” in developing countries and unleashed a bevy of enterprises that claim to be alleviating poverty by lending profitably to the poor. However, some of these enterprises are not exactly classifiable as social enterprises in that they do not meet certain criteria. According to India Knowledge@Wharton (2010), any venture that claims to be a social enterprise alleviating poverty must either employ or train poor people in its main business, produce/off er essential products and services for the poor, make credit available to the poor at rates no higher than twice the rate charged by the bank to their creditworthy clients, or offer technical, material, or financial assistance to microenterprises run by the poor.

Ela Bhatt, the founder of the Self-Employed Women’s Association (SEWA), is another example of a social entrepreneur focused on assisting self-employed informal-sector women organize themselves into a powerful trade and marketing union. SEWA was born in December 1971 on an appeal from women workers of the Textile Labor Association (TLA). The aim of SEWA is to ultimately reduce poverty among its members and raise their standards of living by their own efforts.

SEWA organizes women to ensure that every family obtains full employment. SEWA not only protects its members from exploitation, but it also offers a wide variety of services to around 966,139 self-employed women. These services include collective purchasing, credit and savings, legal help, child care, health care, and insurance. The ultimate goal of the organization is to build the capacities of poor women to be self-reliant and at the same time help reduce personal and business barriers to their success. The Gandhian principles of satya (truth), ahimsa (nonviolence), sarvadharma (integrating all faiths, all people), and khadi (propagation of local employment and self-reliance) are the guiding force for SEWA’s poor, self-employed members. Today SEWA has 21 sister organizations working toward the economic, social, and emotional prosperity of poor women in the unorganized sector.

Self-Help Groups
According to Figure 1, self-help groups operate within the citizens’ sector. SHGs are uniquely Indian innovations that are conceived to correct the ills of society by leveling the “financial” playing field for the poor. In a country where almost two-thirds of the population have no access to formal financial services, SHGs are a unique route to eradicating poverty, increasing incomes, and helping build productive assets among the poor.

In reality, SHGs are composed of 15 to 20 registered or unregistered small entrepreneurs that voluntarily pool their tiny savings and use them to provide loans to members for income-generating investments like chickens, seeds, or goats. The interest on the loans then adds to their savings pool. As in the case of the typical Accumulating Savings and Credit Associations (ASCAs) described by Bowman (1995), the members save periodically in the group and the savings are lent out to members who require loans at a fixed rate of interest. SHGs, however, differ from typical ASCAs in their small size, their being promoted among the poor by external agencies, and, most importantly, in their obtaining loans from banks. Over 90% of these groups have only women members (Nair, 2005).

While no definitive date has been determined for the actual conception and propagation of SHGs, the practice of small groups of rural and urban people banding together to form a savings and credit organization is well established in India, often called Beesi (i.e., 20 people coming together to pool small savings). In the early stages (the 1980s), private-sector nongovernmental organizations (NGOs) played a pivotal role in conceptualizing the SHG model. The turning point of the SHG movement was a pilot project by the National Bank for Agricultural and Rural Development (NABARD) in the early 1990s. The success of the project ignited the SHG movement in India, and by the late 1990s, SHGs were viewed by the state governments and NGOs as not only providing financial intermediation but also serving as a common interest group to address social and political issues (Reddy, 2005).
The basic cause of poverty in India is not merely lack of opportunities but also a lack of awareness regarding the availability of funds for investment, as well as a lack of confidence to take up self-employment.

An Assessment

The basic cause of poverty in India is not merely lack of opportunities but also a lack of awareness regarding the availability of funds for investment, as well as a lack of confidence to take up self-employment. A recent survey of risk appetites in Asia Pacific suggests that Indians prefer a secure job instead of turning entrepreneur. Indians rank last in the Asia-Pacific risk-taking index, far behind Australia and China (Swiss Re Survey, 2009).

Another bottleneck on the road of entrepreneurial activities has been the caste-based social system in many poor Indian states, which looks down upon self-employed people as opposed to those in government jobs. These states, such as Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, and Orissa, have remained poor in spite of all the above-described poverty-alleviation initiatives. Indeed, studies have shown that the success or failure of social change programs aimed at poverty alleviation often depend upon culturally shared ideology as well as certain psychological attributes of the helpers and the poor recipients of help (Furnham, 1982; Omprakash, 1989).

The conceptual framework discussed earlier has attempted to provide a big picture of various schemes designed to promote entrepreneurship and alleviate...
poverty, focusing on the initiatives undertaken by the government, the private sector, and the citizens’ sector in India. The foregoing narrative suggests that the Indian government has directly or indirectly been fostering an environment that nurtures entrepreneurial efforts, especially among first-generation potential entrepreneurs, as well as creating employment opportunities for the unemployed. The private sector and the citizens’ sector are also engaged in combating poverty via several channels, as discussed earlier. However, the operations of these three sectors have not been entirely successful in eradicating poverty in India, where 79% of the population still lives on $2 per day, about 40% are illiterate, and over 30% of urban households and around 10% of rural households lack access to basic sanitation facilities.

It is clear that rapid industrialization and economic growth in India has not added to employment in commensurate fashion and ironically has resulted in a rising disparity in wealth and distribution. Who is to blame for this current state of affairs? We submit that neither markets alone nor governments alone are enough to eradicate poverty. The perceived failures of the Indian government on the poverty front have led many to propose nonstate solutions to poverty eradication. Indeed, it appears as though the Indian government is too easily abdicating responsibility in favor of the private sector with regard to poverty alleviation. However, neither the private sector nor the citizens’ sector has been successful in job creation and poverty eradication despite the hoopla surrounding non-state-based solutions to social ills. A simple case in point is provided by examining the successes and failures of microcredit—a market-based innovation designed to eliminate poverty.

The microcredit approach is based on the provision of credit to borrowers who are not deemed creditworthy by traditional financial institutions due to their lack of collateral. Microfinance agencies use unique group lending innovations to reduce their risk and costs (Sengupta & Aubuchon, 2008). Some organizations also provide services in addition to finance such as education, health care, and training. Not all microfinance institutions (MFIs) are nonprofit organizations. As an example, Banco Sol in Bolivia operates on a strict profitability format, while the Grameen Bank charges below-market interest rates to fulfill a social justice objective. Lending to women is another innovation advocated by the Grameen Bank and some other MFIs, in that it empowers women and results in better welfare outcomes for the entire family.

The literature on assessing the impact of microfinance on poverty reduction has been surprisingly scanty. In a recent study, Hulme and Mosley (1996) suggest that microcredit has not helped the poorest of the poor because such borrowers tend to use loans to smooth consumption and do not make use of loans to invest in capital, technology, or job creation. In a study of the Grameen Bank, Morduch (1999) has noted that the Grameen Bank has a relatively high (adjusted) rate of default and questions the financial sustainability of the Grameen model. The author concludes that, based on accounting statements, the Grameen Bank overstates its profits. But given the Grameen Bank’s focus on social outcomes as opposed to profit maximization, some researchers have rightly critiqued Morduch’s findings (Sengupta & Aubuchon, 2008). Other scholars have also drawn attention to the high rates of interest the bank charges, which results in a crowding out of the poorest of the poor. Another issue with microcredit is in the kind of the entrepreneurial activities the clients/loan recipients end up developing. In this regard, Bannerjee and Duflo (2006) note that often such entrepreneurship is mainly of the subsistence kind that results in neither skill development nor wealth formation. Inevitably, these petty entrepreneurs run small businesses that utilize family labor, which does not result in any employment generation for others.

The above critique implies that at the very least, poverty eradication cannot be relegated to initiatives in the private sector, as demonstrated by the less than stellar results produced by microcredit in developing economies.

Concluding Remarks

The sectoral analysis conducted in our article clearly suggests that neither markets alone nor governments alone are enough to eradicate poverty, especially in the Indian context. Indeed, poverty alleviation is not a simple matter. It is not just about raising incomes of the poor by any means necessary. Rather, it involves giving the poor voice and targeted programs that increase the capabilities and human and social capital of the poor. It is in this context that we suggest an alternative perspective—one that considers poverty as a social ill that calls for an integrated approach as a solution. We reason that a trisectoral approach that recognizes the complementarities between the government, the private sector, and the citizens’ sector may make more sense than the existing paradigm, where each of these is operating in isolation. Thus, we contend that the government sector, the business sector, and the citizens’ sector can complement and thereby sup-
Historically, the government sector has been viewed as the provider of social goods. With the advent of the welfare state, the provision of such goods was seen as the responsibility and a key operational duty of the government sector. Lately it appears as though the government is overly eager to surrender responsibility for poverty alleviation to the private sector. It is true that government failures and a general disillusionment with a welfare-state model have resulted in criticisms of state-led schemes. Yet, such criticisms should not result in a total replacement of state schemes by nonstate initiatives. The public sector in India would perhaps be well served by not abandoning responsibility toward the poor but to redirect its resources into supporting enterprises in labor-intensive industries. Such endeavors by the state have been successful in poverty alleviation in other Asian economies such as China, South Korea, and Taiwan. But, it is also true that the government sector and bureaucracy is often not well equipped to carry out systemic social change. Like in the business sector, the job of finding new solutions, innovations, and models to attack the ills of society may be more in line with the thinking of a social entrepreneur. Ironically, however, social entrepreneurs like Dr. Mohammad Yunus would not have been able to expand the operations of the Grameen Bank without the recognition and financing support received from the government of Bangladesh. In the same vein, citizen groups like social entrepreneurs and SHGs will not thrive in an environment that does not encourage the business-sector principle of competition. Even the Grameen Bank faces competition from other lenders who can sometimes offer better loan products to their clients.

The foregoing underscores the benefits of a three-way complementarity between governments, businesses, and citizen groups, the recognition of which is key to sustainable poverty-alleviation programs. Given the enormity and magnitude of poverty in India and the vast resources in the hands of the government and businesses in the country, perhaps it is important for citizens’-sector groups to view their own resources as complements and not substitutes that can be combined strategically to promote systemic change. Important benefits can be obtained by fostering more effective public-private partnerships. Similarly, government-sector and citizens’-sector partnerships in corporate governance and transparency are attempting to influence private-sector behavior.

While exploiting such three-way complementarities may seem theoretically viable, there are several practical issues involved in their operationalization. Many issues emerge from the fact that the agendas of these three sectors are not always aligned. Where citizen groups are concerned, sustainability and scale issues have often plagued the success of their endeavors. Mahajan (2009) points out social programs such as poverty-eradication schemes can be hijacked by politicians in the government sector to fulfill political ends. For example, the SHG-bank linkage program in the Indian state of Andhra Pradesh became entirely politicized when the incumbent minister pressurized banks to lend to SHGs at substantially below market rates. Likewise, the partnership between social entrepreneurs and the business sector can work only as long as the social problem is amenable to a market solution. The danger here is that the partnership may be misappropriated by those who seek only profits. This will dilute the zeal of any social entrepreneur.

In sum, however, the authors of this article are confident in the ability of these sectors to collaborate in programs devoted to entrepreneurship promotion and poverty alleviation in order to jointly achieve the necessary scale, capital, and vision to successfully sustain such endeavors.
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Note
1. These are the views held by Ashoka, the premier donor/supporter of social entrepreneurs from around the world (http://www.ashoka.org/), and the India Knowledge@Wharton (2010), respectively.

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