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MICRO CREDIT – THE ENGINE OF RURAL DEVELOPMENT

Dr. Pratibha Kumari
M.Com., Ph.D ,
L. N. Mithila University, Darbhanga.

ABSTACT :

Micro credit, being part of financial inclusion, is defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. National Bank for Agriculture and Rural Development (NABARD) and commercial banks promote the formation of SHGs through Bank-SHGs linkage programme. The Self Help Groups (SHGs) methodology was first developed in Karnataka in 1992 to link rural population to the formal financial system. Now about 8.6 crore households have access to banking through SHGs. This paper focuses on the role of micro credit in rural development.

KEYWORDS : Micro Credit, NABARD, Rural Development, SHGs

INTRODUCTION:

Linking SHGs with bank finance has been identified as a key tool towards achievement of holistic inclusive growth. Despite the vast expansion

of the formal credit system in the country, marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks, continue to depend on money lenders. In order to minimize the dependence on money lenders, the concept of SHGs has been launched as a pilot project supported by refinance, the criteria would broadly be adopted by NABARD for selecting SHGs:

- Membership of the group could be between 10 to 20 persons.
- The group should be in existence for at least six months.
- The group should have actively promoted the savings habit.
- Groups could be registered or unregistered.

MICRO-CREDIT: A CONCEPTUAL FRAMEWORK

Foreseeing the need of sustainable development for the impoverished, Muhammad Yunus, the father of microfinance, popularized the concept of micro credit. Micro credit, being part of financial inclusion, is defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their living standards (as per RBI Master Circular, 2008). In India, the most flourishing testing ground of social entrepreneurship has been in the area of micro credit, and more recently microfinance. Culling from international literature empirical features of micro credit are:

- Quantum of loans is small,
- No collaterals are required,
- Rural and urban poor are the major borrowers,
- Ideally loans are used for income-generation through market-based self-employment,

- Loans are administered through borrower groups,
- Owing to NGOs' controlling disbursement as well, the basic terms and conditions for sanction sometimes become private transaction.

DESIRABILITY OF MICRO CREDIT

Providing credit is in the top priority for policy makers to achieve inclusive growth. Unless we are able to meet the credit needs of our people, we can never hope to grow in a sustainable way. Despite multiple agencies giving credit to the rural sector, the critical gap in rural credit still exists resulting in the exploitation of the rural masses by money lenders. The desirability of the status of micro credit can be ascribed to the following reasons:

- Considerable gap between demand and supply for all financial services.
- Majority of poor are excluded from financial services.
- About 56 per cent of the poor still borrow from informal sources.
- 70 percent of the rural poor do not have a deposit account.
- 87 percent have no access to credit from formal sources.
- Less than 15 per cent of the households have any kind of insurance.
- Bankers feel that it is fraught with risks and uncertainties.
- High transaction costs.
- Unfavourable policies like caps on interest rates which effectively limits the viability of serving the poor.
- Lack of an appropriate legal vehicle.

FRAMEWORK FOR MICRO CREDIT

In India, there are two routes through which micro credit is provided to borrowers. The first is the "Bank-SHGs linkage programme" by which National Bank for Agriculture and Rural Development (NABARD) and commercial banks promote the formation of SHGs. Banks lend directly to SHGs, which, in turn, open group savings accounts in the banks. The second route is the "Micro Finance Institute (MFI) model.

The SHGs-Bank Linkage Programme

In 1991-92, a pilot project for linking about 500 SHGs with banks was launched by NABARD in consultation with the Reserve Bank of India. Since launching it as pilot project, it has proved its efficacy as a mainstream programme for banking by the poor who mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small business like hawking and vending in the rural areas.

MFI Model

Microfinance refers to a movement that wants to provide low-income households a wide range of financial services, including not just credit but also savings, insurance and fund transfer. The Indian MFIs are among the fastest growing sector and most efficient in the world today and will continue to develop into an important delivery mechanism to reach out to the poor and empowering women. The role of MFIs is to enhance human capital and to evolve the bankable clients to eradicate poverty.

SHGs-bank linkage programme and MFIs model have become an important alternative to traditional lending in terms of reaching the poor and will continue to be an important delivery mechanism as:

- Poor people need not just loans but also savings, insurance and money transfer services.
- Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
- Subsidies from donors and government are scarce and uncertain, and so microfinance must reach to the large numbers of poor people.
- Microfinance means building permanent local institution.

- Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
- The key bottleneck is the shortage of strong institutions and managers.
- Donors should focus on capacity building.
- Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
- MFIs should measure and disclose their performance – both financially and socially.

Necessary Steps to make Micro-Credit Effective

Micro credit institutions should fund their loans through savings accounts that help poor people manage their myriad risks. Governments should provide an enabling legal and regulatory framework which encourages the development of a range of institutions and allows MFI to operate as recognized financial intermediaries subject to simple supervisory and reporting requirements. Usury laws should be given freedom of setting interest rates and fees in order to cover operations and finance costs from interest revenues within a reasonable amount of time. MFIs on its own are unlikely to be able to face formidable challenges of underdevelopment, poor infrastructure and governance. It needs:

- Appropriate legal structures for the structured growth of microfinance operation.
- Ability to access loan funds at reasonably low rates of interest.
- Appropriate loan products for different segments.
- Ability to innovate, adapt and grow.
- Bring out a compendium of small and micro enterprises for the microfinance clients.
- Ability to attract and retain professional and committed human resources.
- Identify and prepare a panel of locally available trainers.
- Ability to train trainers.
- Capacity to provide backward linkages or create support structures for marketing.
- Finding adequate levels of equity for the new entities to leverage loan funds.

Micro credit is not yet at the centre-stage of the Indian financial sector. The knowledge, capital and technology to address these challenges however now exist in India, although they are not yet fully aligned. With a more enabling environment and surge in economic growth in the next few years the Micro-Credit System may turn out to be exciting for the delivery of financial services to poor people in India. Micro Credit will continue to develop into an important delivery mechanism to reach out to the poor and achieving financial inclusion and empowerment of women. Its role in enhancing human capital is considerable. The objective of the micro credit initiatives must be to evolve the bankable clients to creditworthy clients, thus making concerns about poverty irrelevant.

Empowerment of The Lowest Rung Of Society

Self Help Groups or SHGs represent a unique form of micro financing in India with an approach of financial intermediation. Microfinance institutions can support the marginalised section of society in managing their savings and also offer loans to them for various purposes. However, majority of people are not able to avail the facilities due to variety of reasons.

Self Help Groups is a concept evolved from Grameen Bank of Bangladesh, founded in 1975 by Prof. Mohammed Yunus. In these banks, loans were given without asking from the borrowers any collateral or engage in any paper work. In India, it was initiated by NABARD in 1986-87. However, substantial step was taken during 1992 by linking SHGs with the banks.

In India, an SHG is a small democratically formed group of about 20 persons from a homogeneous class, who come together voluntarily to attain certain collective goals, social or economic.

Banks arrange credit for business-minded SHGs

National Bank for Agriculture and Rural development (NABARD) initiated a programme to work with banks in 2001, linking 3,957 SHGs to micro credit through rural and cooperative banks. The SHG movement was delayed in Bihar. It was initiated by NABARD in other states in 1992. By 2007-2008, the number of SHGs linked with NABARD's guidance was raised to 92,008 SHGs in Bihar.

When SHGs developed financial strength by increasing the savings of their members, bank accounts of SHGs were opened. The idea is to enable them to get loans to set up business at the grassroot level.

The fundamental aim was to save rural poor from the system of informal credit introduced by moneylenders and to bring them into the formal banking system. The first instalment of micro-finance provided to SHGs were for consumption of its members. Thereafter, corpus was created out of their savings on the basis of how much loans they took from banks. The quantum of loans given to SHGs was dependent on savings. The quantum of loan given to them was four times of their savings corpus.

"The SHGs attained financial maturity and reached the 'micro-enterprise mode' to enter into the production process with small business and cottage industries of papad, sattu, besan and tilori making besides other small production activities.

A large number of NGOs, farmers' clubs, local bodies, field level workers of government agencies, bank staff and social workers interact with members. Out of 19,669 SHGs credit linked in 2007-08, almost 10,490 got it under swarna jayanti gram rojgar yojana. They disbursed loans worth Rs 154.28 crore. The state level bankers committee targeted to link 40,000 SHGs during the financial year 2008-09. The NABARD provided Rs 19.85 crore as refinance to the banks providing funds to SHGs during 2007-08.

The NABARD sanctioned 56 new self help promoting institutions (SHPIs) projects in 28 districts of Bihar for promotion and credit linkage of 3,875 SHGs in 2007-08. By March 31, 2008, 196 NGos had acted as SHPI partners in the state to nurture the SHGs. During 2008-09, seven new SHPI projects for linkage of 550 SHGs with grant assistance of Rs 16.50 lakhs were sanctioned. Besides, 16 new farmers' clubs as SHPI projects were sanctioned to different banks for promotion and credit linkage of 170 SHGs. Earlier, by March 31, 2008, 49 Farmers' clubs had partnered as SHPIs.

During 2007-08, the NABARD had released a total grant support of Rs 44.68 lakh for promotion and upscaling of SHG-BLP related activities in Bihar with 99.29 per cent utilization of the money. In its capacity building support in 2007-08, the NABARD supported 82 training programs/workshops/sensitization meets and other capacity building programmes for the SHGs in which 3,000 SHG members and leaders, IRVs, NGO facilitators participated.

Under its micro enterprise development program (MEDP) during 2007-08 for transforming the micro credit fed SHGs into micro enterprises, the NABARD sanctioned Rs 3.15 lakh for 16 MEDPs to six NGOs in five districts in the state.

CONCLUSION

It's time to move beyond credit and embrace a real vision of financial inclusion-financial inclusion that provides poor people with a full set of choices to manage their household finances. To quote Muhammad Yunus, "When we started to talk about micro - credit, it sounded outlandish to most people. But the concept of social business did not sound outlandish to most people. There is more acceptance of social business than in the case of micro - credit. But these are only pieces in a larger picture. There are other issues vying for attention. There is a financial crisis. There is food crisis. There is an environmental crisis. There is an energy crisis. There is also a social crisis, amongst others. It is all because we have a wrong architecture of economic framework. We need to build the architecture in a different way. That is why I am trying to bring my ideas of conceptual redesigning. Others can bring their ideas. But the present architecture must change.

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