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ECONOMIC ANALYSIS OF RURAL DEVELOPMENT THROUGH MICRO-CREDIT SYSTEM IN INDIA

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ABSTRACT

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access the services. Hence, here paper is based on secondary sources and an objective is to examine the financial inclusion and rural development in India.

KEYWORDS:

Financial Inclusion, Self help Groups, Micro-credit

I. INTRODUCTION:

Financial exclusion is broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers. Thus the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enable them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc. In fact, the main reasons for financial exclusion, from the demand side are lack of awareness, low income, poverty and illiteracy; and from the supply side is distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes, etc. Due to all these procedural hassles people feel it easier to take money from informal credit sources, but it results in compromised standard of living, higher costs, and increased exposure to unethical and unregulated providers and vulnerability to uninsured risks. Thus financial inclusion does not mean merely opening of saving bank account but signifies creation of awareness about the financial products, education and advice on money management, offering debt counseling, etc. by banks. Every society should ensure easy access to public goods. Therefore, banking service being a public good should also be aimed at providing service to the entire population (Sadhan Kumar Chattopadhyay: 2011).

Table 1: Indicators of banking sector outreach

INDICATOR	MEASUREMENT
(i) Bank accounts per adult	Number of bank accounts per adult
(ii) Geographic branch penetration	Number of branches per 1000 km2
(iii) Demographic branch penetration	Number of branches per 1,00,000 people
(iv)Geographic ATM penetration	Number of bank ATMs per 1000 km2
(v) Demographic ATM penetration	Number of bank ATMs per 1,00,000 people
(vi)Demographic Loan penetration	Number of loans per 1,00,000 people
(vii)Loan-income ratio	Average size of loan to GDP per capita
(viii)Demographic deposit penetration	Number of deposits per 1,00,000 people
(ix) Deposit-income ratio (or deposit-GDP Ratio)	Average size of Deposits to GDP per capita (or total bank deposits to GDP)
(x) Cash-Deposit Ratio	Cash in circulation to total bank deposits

II. OBJECTIVES OF THE STUDY.

1. To study the Role of Micro Credits in Rural Development.
2. To study the Micro Credit system in India.
3. To study the Micro Credit Institution in India.

III. METHODOLOGY AND DATA SOURCE:

The study is based on secondary sources of data. The required data has been obtained from following sources: Indian Public Finance Statistics, RBI Bulletin, Budgetary Documents, CSO, and Economic Survey.

1. ROLE OF MICRO CREDITS IN RURAL DEVELOPMENT

The necessity of Rural Development arises due to the gap between urban and rural areas in terms of infrastructural facility, standard of living and their income. Rural Development is the proper utilization, protection and intensifying the natural, physical and human resources requires making long term improvement in rural life. Rural development which much more implies on small farmers agricultural progress, encompasses efforts to raise both farm and non-farm rural real incomes through job creation, rural industrialization, and the increased provision of education, health and nutrition, social and welfare services. Rural Development is defined as balancing the rural and urban areas with the healthy competition among those which are results in nation's development. In the country's revenue larger share is contributed by rural sector, which provides food to whole population and raw material to agro-based industries. For this reason, rural finance plays vital role in the developments of rural sector.

It started with lending money from informal sector through money lenders, landlords, relatives, traders and institutional credit facilities, then through the agencies like Co-operatives, commercial banks, land development banks and government. In the developing countries like India with 'regional imbalance's existing. So 'Micro-credit' assumes a great significance in this context. A micro-Credit programme expands small loans to poor people for the provision of self employment that generate income allowing them to care of themselves and their family members. The microcredit programme showed remarkable successfulness since 1992 passing through stages of pilot during 1992-95, mainstreaming during 1995-98 and expansion phase (1998) and onwards. Recently microcredit emerged as the world's biggest microfinance programme in terms of outreach, covering 1.6 million groups as on March 2005. As per NABARD data, the number of bank-linked SHGs stood at around 68 lakh during 2009-11.5 If one assumes the average membership of about 12 households per SHG, this works out to be about eight crore households. The average outstanding bank loans for the three-year period amounted to Rs 27,300 crore. The commercial banks form the major financing partner in the programme. They accounted for the bulk of the loans outstanding – 68% –followed by regional rural banks (RRBs)(22%) and cooperative banks (6%).

2. MICRO CREDIT SYSTEM IN INDIA

"Indian public policy for rural finance from 1950s to till date mirrors the patterns observed worldwide. Increasing access to credit for the poor has always remained at the core of Indian planning in fight against poverty. The assumption behind expanding outreach of financial services, mainly credit was that the welfare costs of exclusion from the banking sector, especially for rural poor are very high, starting from late 1960s, India was home to one of largest state intervention in rural credit market and has been euphemistically referred to as "Social banking phase".(Alok Mishra,2006).

The credit requirements of Indian farmers are met by the moneylenders, traders, commission agents, landlords, relatives and the organized institutional agencies like Co-operatives, Commercial Banks, Land Development Banks and Government. Co-operatives have been a major source of rural Credit since a very long time. The All India Credit Survey Committee in 1951-52 observed that it felt short of the right quality was not of the right people. After nationalisation of 14 Major commercial Banks, In 1969 Commercial Banks have also entered into the field and a part of rural credit is met by the different Commercial Banks. The Integrated Rural Development Programme (IRDP) was launched in the year 1978 as an anti-poverty programme. The main purpose of this programme was alleviation of poverty. But Unfortunately IRDP programme failed to reach whole poor rural.

The share of "exploitive" sources (professional moneylenders and agriculturist moneylenders) in rural credit fell from an average of over 75per cent in 1951-1961 to 25 per cent in 1991. The share of formal sector lending more than doubled between 1971 and 1991.At this stage rural credit marked in India need for financial innovation.

Basically, the main objective of microfinance is to uplift the poor through providing credit facilities at easy accessible way. As per the NABARD and the RBI definitions, microfinance means "provision of thrift, credit and other financial services and products of very Small amounts to the poor enabling them to raise their income levels and improve living Standards" (NABARD 2000; RBI 1999).

"The remarkable success of the Grameen Bank in Bangladesh is a good example that visionary micro credit movement, led by Muhammad Yunus, has consistently aimed at removing the disadvantage from which women suffer, because of discriminatory treatment in the rural credit market, by making a special effort to provide credit to women borrowers. The result has been a very high proportion of women among the customers of the Grameen Bank. The remarkable record of that bank in having a very high rate of repayment (reported to be close to 98 percent) is not unrelated to the way women have responded to the opportunities offered to them and to the prospects of ensuring the continuation of such arrangements. Also in Bangladesh, similar emphasis has been placed on women's participation by BRAC, led by another visionary leader, Fazle Hasan Abed". (Amarthya Sen, 2006)

Conceptually the, microfinance methodologies could be classified into five groups as follows viz; Grameen solidarity model, the group approach , individual Credit, Community Banking, Credit banking and, credit unions and cooperatives.

The Formal sector of rural is the sector in which loan transactions are regulated by legislation and other public policy requirements. The institutions in this sector include commercial Banks, cooperatives banks and credit societies and other registered financial institutions. The informal sector of credit is not regulated by public authorities and the terms and conditions attached to each loan are personalized, and therefore vary according to the bargaining power of borrowers and leaders in each case.

As rightly observed by Alok Mishra, "Microcredit emergence in India has to be seen in this backdrop for a better appreciation of current paradigm, successful, intervention interventions across the world especially in Asia and in parts of India by NGOs provided further impetus. In this backdrop NABARD's search for alternative models of reaching the rural poor brought the existence of informal groups of poor to the fore".

3. MICRO CREDIT INSTITUTION: (SHG – BANK LINKAGE PROGRAMME.)

In developing countries 'Micro credit' has been coined as banking for poor people. In rural areas revolutionary step taken place by the government through introducing the micro credit facility in two ways those are 'Self Help Groups-bank linkage' and 'Microfinance institutions'. That has proved that a small thing makes a lot of difference. It has become in India too. SHG-Bank Linkage Programme, since its project in 1992, has emerged as the leading micro-finance programme in the country. It is recognized as an effective tool for extending access to formal financial services to the unbanked rural poor. Encouraged by the success, the programme has been adopted by state government as a major poverty alleviation strategy. It has also led to the emergence of Micro Finance Institutions (MFIs) as a bridge between the banking sector and the rural poor (NABARD: 2008-2009).

Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme as a cost effective mechanism for providing financial services to the "Unreached Poor" which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor, leading to their empowerment. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country. The SHG – Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a Pilot Project.

The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non Governmental Organizations (NGOs).The SHG Bank linkage Programme which started in 1992 has grown exponentially over two decades and around 74.62 lakh SHGs are linked to different Banks up to 2011. Of these nearly 65 per cent have direct credit link with bank. Out of these 74.62 lakh SHGs 60.98 lakh are women SHGs. The overall progress under microfinance from the period 2006-07 to

2010-11 is shown in table-2, it is represent that, though savings of number of SHGs with the bank is increasing over the years the growth rate of SHGs in percentage terms is declining from 22.21 in 2009 to 7.3 in 2011.Regarding the amount of savings it has a significant growth during 2008 to 2009 (46.5 per cent) but after that it declines. Regarding bank loan disbursement to SHGs it shows a declining trend and in terms of number of SHGs became negative in 2011.

Table No 2: SHG- Bank Linkage Programme

Sl. No.	Particulars	2007-08		2008-09		2009-10		2010-11	
		No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs (in Lakh)	Amount (Cr.)
1	Savings of SHGs with Bank	50.09	3785.4	61.21	5545.62	69.53	6198.71	74.62	7016.3
				(22.21)	(46.5)	(13.6)	(11.8)	(7.3)	(13.2)
2	Bank Loans disbursed to SHGs	12.28	8849.3	16.09	12253.5	15.86	14453.3	11.96	14547.7
				(31.1)	(38.5)	(-1.4)	(17.9)	(-24.6)	(0.01)
3	Bank Loans Outstanding with SHGs	36.25	16999.9	42.24	22679.8	48.51	28038.3	47.87	31221.17
				(16.5)	(33.4)	(14.8)	(23.6)	(-1.3)	(11.4)

The pattern of funds flow during 2006-10 to self-help groups and microfinance institutions – the two competing institutional arrangements of micro finance delivery in India – reveals that the commercial banking system had steadily shifted its patronage to large MFIs from the mid-2000s.Increased access to equity capital helped these MFIs improve their capital adequacy, which, in turn, helped them leverage the domestic debt market. They also resorted to newer ways of raising capital through product structuring and introduction of innovative debt instruments. MFIs thus played a significant role in linking the processes of neo-liberal restructuring and financialisation with the daily lives of local communities (T.S.Nair, EPW: 2012).

IV. CONCLUSION

In developing countries 'Micro credit' has been coined as banking for poor people. In rural areas revolutionary step has taken place by the government through introducing the micro credit facilities in two ways, those are; 'Self Help Groups-bank linkage' and 'Microfinance institutions. Earlier to 1980's micro credit was provided by the informal agencies like Landlords, Money lenders, Merchants and Relatives etc.

But the credit provided by them was very costly; i.e., borrowers had to pay high interest on credit and common man, farmers were sufferers. Later on from 1986-87 the NABARD has taken initiation to give shape to informal agencies. After nationalization, banks, provided loans to farmers but it did not became effective. But after the liberalization i.e. in 1990's, financial sector needed innovation, then it's resulted in using term called "micro credit". Rural development requires this provision of this type of rural credit. That is formation of Self help groups, which is usually consisting of minimum 15 members and 90per cent of women members. In the rural areas it has created tremendous change. In the recent phase of globalization, self help groups have given answer to the poverty. This has created self-reliance, self-respect, entrepreneurship among poor rural people, not only in India but also in all developing countries like India.

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