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MICROCREDIT : A TOOL OF POVERTY ALLEVIATION

Anoop Kumar Singh
Associate Professor, Deptt. of Sociology,
D.A.V. P.G. College, Kanpur & Former Convener RC-11,
Indian Sociological Society, New Delhi.

Abstract: Though much of headway has been done still much needs to improve regarding credit to rural areas. Simply credit alone would not serve the purpose. What is actually required is to extend a package of financial products which not any includes credit but also savings, insurance, remittances, facilities etc. Low cost and flexible saving products, credit lines tied to low cost and high pentration micro insurance products, and remittances products that link transfer to asset building are thus need of hour.

This paper attempts to describe the relevance of micro-credit for economic and social upliftment of downtrodden people particularly in rural areas. Actually lack of credit is more significant factor in economic well-being of rural folk and it used to enhance by formation of Self Help Groups (SGHs) particularly in Govt. programmes like SGSY & N.R.L.M.

Keywords: Micro-credit, Microfinance, Self Help Groups (SHGs) Asset Building

INTRODUCTION

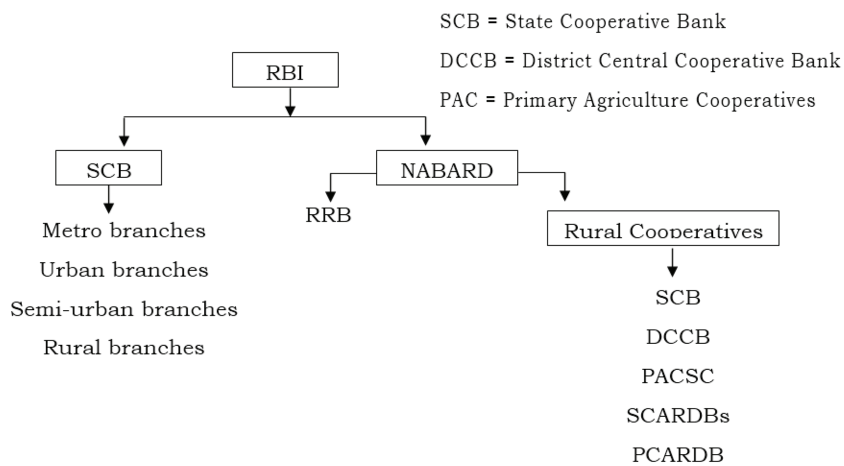
There is growing consensus that the poor as well as the rich, irrespective of their origin, caste, creed etc. should be included in saving. Credit and other financial opportunities. The reasons for this growing concern is that there opportunity for people to develop their capacities as well as by accumulating assets, and invest in themselves and their children, and become more productive and engaged in society. While increasing income through proper delivering of credit helps poor, it is often not enough to pull them out of poverty. Therefore, it is pertinent to analyze the different policy frameworks at work for financial inclusion of poor and in particular the rural poor.

The measure initiatives is to reduce indebtness and regulating money-lending activities for agricultural purposes failed to provide a long term solution. The Cooperative Societies Act which was passed in 1904 to provide necessary legislative support to the financing of agricultural and regulating credit in the interest of cultivators then signaled the entry of credit for agriculture from the institutional sector. Since then cooperatives have been the major institutional source for all agricultural loans (Singh, a 2009).

The rural credit system as we see today has evolved over the last five and half decade. During this course, the system witnessed many reforms mainly recommendations based on many committees and expert groups appointed by G.O.I. and R.B.I. from time to time. The agriculture credit system received its first and significant policy directions from all India rural committee which recommended new initiatives.

Though these steps helped in augmenting the flow of agriculture credit to some extent, credit supply from the cooperatives did not match the demand for credit. Therefore the govt. intervened to encourage commercial banks to play a major role in providing agriculture credit by nationalizing commercial banks. The other major development in agriculture credit from the supply side were establishment of RRBs in 1975 establishment of NABARD in 1982 and the ongoing financial sector reforms since 1992 to supplement the institutional mechanism.

Institutional structure of Rural Credit



Three types of loans are provided to Indian to meet their financial needs:

(i) Short term loans

(ii) Medium terms loans

(iii) Long term loans

Non-institutional sources like money lenders, landlords etc. and institutional sources like commercial banks and govt. sources. The policy on agriculture credit aims at progressive institutionalization of credit agencies for providing credit to farmers for raising agricultural production and productivity.

Genuinely the poor find it difficult to access financial services through the formal sector because of the cumbersome procedure of a formal institutions. They do not have any collateral to secure a loan, though they have small savings and they resort to the informal sector which include the moneylenders to meet their credit needs.

Microfinance, through self help groups has become an important instrument to meet the credit needs of the poor, especially in the rural areas.

The National sample survey organization estimates that nearly 50% of the cultivator, households, mostly marginal farmers have virtually no access to credit. The govt. initiative to help give credit to the poor has made self help groups (SHGs)- Bank linkage programme in India as the largest microfinance programme in the world.

Experiences of different anti-poverty programmes implemented throughout the world have shown that the key to their success lies in the evolution and participation of community based organization at the grass-root level. People, participation in credit delivery and recovery and linking of formal credit institutions to borrowers through intermediaries of SHGs have been recognized as a supplementary mechanism for providing credit support to poor.

Micro-credit in India has to be understood against the structure of the financial system which has evolved through two sets of financial institutions formal and informal. The formal system *consists* of a multi-agency approach, comprising cooperatives, public sector commercial banks (CBs) regional rural banks (RRBs) and private sector bank. There are innumerable types of informal credit suppliers in India which consist of rotating saving sand credit associations (ROSCAs), traders, merchants, moneylenders etc. The formal structure has a legal and and regulated component, which provides credit and other services to the non-formal sector. The non-formal structure largely comprising of N.G.Os, SHGs, clusters and federations of groups operate outside the legalized structure and have demonstrated considerable organizational flexibility and dynamism in responding to the demands at the grassroots in India, the players constituting the regulating bodies, apex bodies and intermediaries, comprise those responsible for the supply side of the intervention. The clients constitute the demand side of the intervention (Burra, 2005).

Officially, the intervention of micro-finance has been heralded worldwide as one of the most effective cures for poverty. World micro-credit summit held at Washington in 1997 designed an approach to eradicate poverty and framework to inclusive development. Four core themes of summit campaign helped to focus both on the demand side of micro-credit as well as the supply side. These were –

Reaching the poorest: 1.2 billion people are living in absolute poverty in the world those comprise some 240 million families. The summit also promotes the use of quality poverty measurements to indentify the poorest. Reaching and Empowering women since women are supposed to be good credit risk's and women-non interprises benefit their families, micro-credit is seen as a tool to empower women. **Building financially self-sufficient institutions**. This theme is based on the experience of developing countries, which have shows that micro-credit programmes can improve their efficiency *and structure* their interest rates to eventually cover their operating and financial costs.

Ensuring a positive, measurable impact on he lives of clients and their farmers. Measure of poverty in India is based on the concept of income poverty. Based on calorie norm, income poverty estimates the income needed to provide individuals with stipulated minimum of food intake per day in rural and urban areas. There are, however other indicators than mere income, which are accounted for when poverty is conceptualized are – levels of consumption, level of expenditure, infant and child mortality, status of health, literacy, nutrition levels. Further, other forms of discrimination that are due to caste, race and ethnicity aggravate situation of poverty between households. Poverty, can be seen as an interlocking failure of ownership, exchange and consumption entitlements and outcomes, which are shaped by both the domestic and macro improvement. Entitlements that every person irrespective of demarcations, receives by virtue of being a human *being. In the* light of development being translated as a human rights, these entitlements seem to be the common denominator, which bypass biases both social and political. Poverty can be conceptualized as the accurate poverty of entitlements in order to fulfill basic responsibilities essential to human survival and maintenance.

Every household functions within a socially stratified environment, which accords it place in a hierarchy. Social, political and economic factors determines the entitlements of households. Poor households are those with extremely low levels of resources, skills and entitlements. In economics where the respondents of maintenance of its population is shouldered by the state, in the existence of poverty. Anti-poverty programmes and schemes in India were hitherto addressed at enhancing the entitlements of poor households on one hand by providing employment, subsidized credit etc., and also on lightening the besides of responsibility on the other hand by subsidizing food, health, child care and education services. With liberalization *of the state's* role in sharing the burden of responsibility of reproduction and maintenance of households. Since there is little effort now in that direction, the only other way in which poverty reduction efforts can be made is an triggering off processes that enhance entitlements and community based efforts to share responsibilities. The catchward is 'self-help, and micro-credit as it is promoted today is a means of enabling the poor to help themselves to expand entitlements and share responsibilities. Micro credit is a financial innovation which originated in developing countries where it has successfully enabled extremely impoverished people to engage in self-employment, projects that allow them to generate an income, began to build wealth and exit from poverty.

It is extension of services to those downtrodden people who are not considered bankable. These peoples lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is also a tool for socio-economic development.

Due to the success of microcredit, many traditional banking industries have began to realize that these microcredit borrowers should more correctly be categorized as prebankable. Poverty alleviation is one of the prime objectives of any country's planning. Development is possible only if the poverty eradication programmes are implemented effectively with the participation of people. All over world there is a realization that the best way to tackle poverty and enable the community to improve its quality of life through social mobilization of poor. (P. Vasanthakumar, 2011).

Ensuring access of reasonably priced, services to the poor and the needy should be the main principle of institutional credit theory. In India various modules and innovations have been experienced by various agencies in pursuit of argumeting their outreach to the poor.

Self Help Groups (SHGs) is one endeavour to reach out to the poor at their doorsteps at reasonable terms with the desired products. The origin of SHGs, may be traced to the failure of programme implemented by formal credit institutions to reach backward areas and rural poor. The high cost of credit as well as time for repayment have created wide gap between the needs of poor and the services provided by formal credit institutions. The origin of SHGs, is the brain child of Gramin Bank of Bangladesh founded by Prof. Mohammad Yunus in 1975.

SHGS – BANK LINKAGE PROGRAMME

The SHGs - Bank linkage programme in India is the largest micro finance programme in the world. NABARD has been playing supportive role by way of financing banks, organizing training programmes for NGOs, bank officers and SHGs - bank linkage. The launching of pilot project initiating in 1992 is indeed a landmark development in banking with the poor as it has been covering poorest of the poor who were so far neglected by the formal financial sector. The SHG - Bank linkage programme (SBLP) launched by NABARD in 1992 is relevant in the microfinancing in India.

Self Help Groups have been instrumental in initiating micro entrepreneurial activities among those poor people who have been neglected so far and far away from the process of social as well economic development. SHG-Bank linkage is responsible for developing banking habits among the poorest of the poor.

The most significant intention of SHGs is that they build up rough compliance among the poor and now they are ready to participate in the process of development. Many of these have been nursing fair price shops very successfully. SHG-bank linkage programme in India is the largest poverty alleviation programme in world. Self-Help Group movement is a revolutionary movement as it attacks on poverty and more contribution of this scheme is capital formalities by the groups of poorest of the poor people.

Self Help Groups are based on mutual trust, cooperation and coordination. The SHGs compress very poor people who do not have any access to formal financial institution. They act as the forum for the members to provide space and support to each other. It helps members to *provide space and* support to each other. It helps members to work in cooperative and group environment.

NGO's, government department and Banks are the main promoters of SHGs. NGOs play an active role in providing synergy in the group formation and Bank linkage. Three models of SHG and Bank linkage have been tried in India. Model I (Bank-SHG), Model-II (Bank-SHG-NGO) and Model-III (Bank-NGO-SHG). In model I, NGOs have no role in credit linking and in II they act as mere facilitators. In model III they act as intermediary taking loans from banks, lending to SHGs and passing on recoveries to banks.

SHGs are playing a crucial role of harmonizing the society and strengthening the rural economy. SHGs are recognized as one of the major programmes of poverty alleviation in India with full participation from the formal banking system. However, considering the magnitude of poverty, the outreach of the programme needs to be strengthened and enhanced. The concept of *group activity in gradually catching up.* Beyond financial intermediation SHGs can bring about dynamic changes in the lives of poor.

It has been clearly established that delivery credit alone cannot produce the desired result. Supporting services and structures through which credit is delivered, ranging from group formation and training to awareness raising and wide range of other supporting are critical to make the impact of group activity strong and sustainable.

In conclusion this paper attempt to describe that in India despite of vast banking network, poor people are depend on middleman and 'Sahukar for credit just because of several complication in issuing credit to poor rural folk to initiate their primary entrepreneurship or project an complete their social project. Therefore, in this circumstances self help groups formation for micro-credit has became panacea for alleviation of poverty and in enhancement of their financial status.

Micro-credit programmes should be preceded by a process of social mobilization, That is, a group comprising women should be formed first, common issues confronting members should be taken up and cohesion should be achieved, before taking on micro-credit activities. Several case studies like of DHAN foundation and SAPAP are proper examples for said facts. Though micro-credit interventions target the economic sphere and have the potential to empower women economically, they can at best lead to incremental change in women's control over resources.

While poor women have an inherent potential for transformation an external stimulus seems necessary to unless the process. The process occurred not through a top-down but a buttom-up strategy that released the creative potential for poor women and other oppressed groups. Institutional processes facilitate empowering and poverty reducing processes depends upon whether its perspective programmes, organization and systems are gender, caste and class transformative.

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