

Role of micro finance in agricultural development: A case study of Tumkur District

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Abstract— Credit is an essential input for the growth of the any country. For varied reasons, Indian farming community is not successful in making enormous investments in agriculture. There is a proverb which says “Indian farmer takes birth in debt, lives in debt, and dies in debt”. In order to ease the problems of farming community, Indian Cooperative Societies Act was approved in 1904. A number of credit cooperatives were started under this Act, which provided institutional support to farmers for short, medium and long term purposes. Consequently, tiers at state and district levels were too conceived to strengthen these credit cooperatives. Apart from these cooperative institutions, nationalization of commercial banks and introduction of regional rural banks also helped in increasing credit supply to the farmers of the country. Despite this, the institutional financing agencies have failed, to a large extent, to meet the necessities of the farmers. Some of the factors responsible for their failure are insufficient supply of credit, poor recovery, demand-supply gaps, interference by politicians, lack of monitoring, misutilisation of credit, problems in identification of target group, high transaction costs and lags in time, natural calamities and above all, presence and competition from informal credit agencies. A number of committees have been constituted by Government of India looked into their functioning and made numerous recommendations to progress their health and execution. Of the total credit provided by these institutions 44% was met by cooperative banks and 48% by commercial banks leaving a miserable amount by regional rural banks (Annual report, Reserve Bank of India, 2016). Till date, these institutions are catering to about 60% of the total credit necessities of the farmers in rural areas of the country. This paper analyses the role of micro finance institutions in promoting agricultural growth.

Index Terms- Agriculture, Credit facilities, Loan distress, Institutionalization, Farm credit.

I. INTRODUCTION

The micro finance, in India, currently provides primarily savings and credit facilities under dissimilar

models, viz (a) the banks providing “no-frills” deposit facilities, remittances, insurance and small loans; (b) the self-help group (SHG) bank linkage model; (c) the micro finance institutions mode; (d) the post offices, one of the most widespread organizations in the country, with 1,38,000 rural offices have also been providing small savings, allowance facilities and postal life insurance facilities for the community. The National Bank for Agriculture and Rural Development (NABARD) has been the foremost facilitator of the SHG Bank linkage approach in which small informal groups called “self-help groups” have been provided with financial support in the form of grants to develop themselves as institutions capable of accessing credit from the formal banking structure in the country.

The micro finance institutions approach has evolved to convene the enormous unmet probable for microfinance in the country. The microfinance institutions having various ownership structures like societies, trusts, not for profit companies and for profit companies, etc., are providing microfinance to the poorer sections of the society. An integer of private sector banks is using the micro finance institutions to gather their priority sector obligations in the society. The budding self-help group federations at village/block/district levels as in Andhra Pradesh, Uttar Pradesh and Bihar and other models offer valuable support and handling functions to facilitate the appearance of micro-enterprises. This is being vigorously promoted so that the earning competence of the deprived people is improved and this will augment the rural economy. These efforts need to be strengthened to ensure financial inclusion utilizing the microfinance system, especially in unbanked rural areas. With this background, an attempt has been made to analyze the appearance of micro finance in dropping the poverty and thereby empower the women.

The Task Force on supportive policy and regulatory framework for microfinance headed by Y.C.Nanada (NABARD, 1999) has defined micro-finance as; “Provision of thrift, credit and other financial services and products of extremely small amounts to the deprived in rural, semi urban or urban areas for enabling them to elevate their income levels and advance living standards. The Task Force has emphasized that micro finance will cover not only consumption and production loans, but also consist of other credit requirements such as housing and shelter development, while other financial services like savings and insurance are also included under it. It may be left to the micro finance institutions (MFIs) to identify the poor. While exclusively covering the poor, micro finance emphasizes on graduating the borrowers from the pre-micro-enterprise stage to the post-micro enterprise stage with the support of financial and non-financial services. The emphasis of support under microfinance is, thus on building up capacities to handle larger resources rather than on financing micro enterprises which could be otherwise enclosed by the direct lending programmes of banks or through specific poverty alleviation programmes of the government.

Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very pitiable that lack admittance to traditional formal financial institutions need a diversity of financial products. Microcredit came to reputation in the 1980s, even though near the beginning experiments date back 30 years in Bangladesh, Brazil and a few other countries. The important disparity of microcredit was that it avoided the pitfalls of an earlier generation of targeted development lending, by insisting on repayment, by charging interest rates that could cover the costs of credit delivery, and by focusing on client groups whose alternative source of credit was the informal sector. Emphasis shifted from rapid disbursement of subsidized loans to prop up targeted sectors towards the building up of local, sustainable institutions to serve the poor. Microcredit has largely been a private (non-profit) sector proposal that avoided flattering overtly political, and as a consequence, has outperformed virtually all other forms of development lending. Conventionally, the microfinance was focused on providing an incredibly standardized credit

product. The poor, just like anyone else, need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks.

II. REVIEW OF LITERATURE

Dr.Banerjee, Besley and Guinnane (1994), Besley and Coate (1995) Conning (1996), Madajewicz (1998), Stiglitz (1990), Armendariz de Aghion (1999) and Ghatak and Guinnane (1999) also argues that compared to other explanations, arguments based on peer monitoring are more successful in explaining the success of group lending schemes. They illustrate how impressive joint accountability on borrowers can alleviate adverse and more hazard problems. However, the variables they emphasize in order to display peer monitoring are somewhat dissimilar also. Dr.Ghatak (1999, 2000) and Tassel (1999) opined that group lending could lead to homogenous group formation. They affirm that joint responsibility and self-selection in credit could lead to positive assertive matching so that borrowers of the same type club together. Safe borrowers will form credit cooperatives and risky borrowers will be left out-of-the-way.

Dr.Besley and Coate (1995) analyzed a deliberate repayment amusement with joint accountability and demonstrate that victorious group members may have an incentive to repay the loans of the less successful ones. They also highlight the effects of social collateral in enforcing punctual repayment system also.

The Studies by Besley and Coate (1995), Khandker, Khalily and Khan (1995), Ray (1999) and Rai and Sjostrom (2004) have emphasized the ‘domino effect’ of the group being expelled from prospect loans (in the case of a member non-payment on loan) as a potential incentive mechanism to implement repayment of the group. The contingent renewal implies that the assortment of borrowers is credit history needy.

Bhatia (1986) opined that the majority of the banks had been allocating large parts of their loans and advances to giant industrial and trading institutions. The policy of social control slightly tilted the situation, but a major shift in commercial banks lending policy took place with the nationalization of the major commercial

banks. The task of nationalized banks was stated, to restore vitality to the rural economy, build up the future opulence of the common man and reinforce both agricultural and rural industry. Nationalization of banks was, therefore, essential to reshape the credit policies of the banks and direct the flow credit to thus far deserted sectors.

Objectives of the Study

1. To study the emergence of micro finance in India and in Karnataka.
2. To evaluate the economic impact of SHGs microfinance on production levels, asset creation levels, food security and standard of living.
3. To ascertain whether micro finance leads to employment generation and reduction in poverty in Karnataka in general and in Tumkur district in particular.

III. RESEARCH METHODOLOGY

The methodology of the present study can be broadly outlined with the help of primary and secondary source of data and information particularly the micro finance programmes of SHGs have been chosen to investigate its progress, performance and influence for the promotion of economic empowerment of women, year wise physical and financial targets and achievements of the micro finance programmes of SHGs has been analyzed, the growth rate of different schemes for economic empowerment has estimated on the basis of available annual data. For the field study 500 respondents have been selected from Tumkur district.

Secondary data has been collected from the published sources such as government publications, reports of women and child Development Corporation, and census reports of Karnataka and other learned journals regarding women empowerment. The study is confined to micro finance in the state of Karnataka and particularly in Tumkur district.

- Micro-finance and Poverty Alleviation in India
Numerous poor people look for to mobilize resources to develop their enterprises and their dwellings slowly over time. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security.

However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. They are very often deprived of access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance immaterial. Therefore, the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself (Kim 1995) in the society.

In the society the be short of admittance to credit for the poor is attributable to practical difficulties arising from the inconsistency between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of various self employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income households do not have. In addition bankers tend to consider low income households a bad risk imposing exceptionally high information monitoring costs on process in the economy.

Generally the over the preceding ten years, however, winning experiences in providing finance to small entrepreneur and producers make obvious that poor people, when given access to responsive and timely financial services at market rates repay their loans and use the proceeds to increase their income and assets. This is not astounding since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grassroots savings and credit groups around the world have exposed that these microenterprise loans can be gainful for borrowers and for the lenders, making microfinance one of the most efficient poverty plummeting strategies system.

The most important microfinance institutions turn into financially feasible, self-sustaining, and integral to the communities in which they operate, they have the potential to draw more resources and expand services

to clients. Despite the success of microfinance institutions, only about 2% of world's roughly 500 million small entrepreneurs is estimated to have access to financial services (Barry et al. 1996). Although there is demand for credit by poor and women at market interest rates, the volume of financial transaction of microfinance institution must reach a certain level before their financial operation becomes self-sustaining. In other words, although microfinance offers a promising institutional structure to provide access to credit to the poor, the scale problem needs to be resolved so that it can reach the vast majority of potential customers who demand access to credit at market rates. The question then is how microenterprise lending geared to on condition that short term capital to small businesses in the informal sector can be sustained as an integral part of the financial sector and how their financial services can be further expanded using the principles, standards and modalities that have proven to be effective system.

To be victorious, financial intermediaries that offer services and generate domestic resources must have the capacity to meet high performance standards. They must achieve excellent repayments and provide access to clients. And they must build on the way to operating and financial self-sufficiency and expanding client reach. In order to do so, microfinance institutions need to find ways to cut down on their administrative costs and also to broaden their resource base. Cost reductions can be achieved through simplified and decentralized loan application, approval and collection processes, for instance, through group loans which give borrowers household tasks for much of the loan application process, allow the loan officers to handle numerous more clients and hence decrease costs (Otero et al. 1994).

Therefore, the formal sector finance institutions could form a joint venture with informal sector institutions in which the former provide funds in the form of equity and the later extends savings and loan facilities to the urban poor. Another form of partnership can involve the formal sector institutions refinancing loans made by the informal sector lenders. Under these settings, the informal sector institutions are able to tap additional resources as well as having an incentive to exercise greater financial discipline in their management system.

IV. DATA ANALYSIS

Details of Source of Loan to the Respondents in the Study area

Sl. No.	Particulars	Loans from SHG common fund	Loan from SHG common Fund and money lenders	Total
1.	SHGs – NGOs of Pavagada Taluk	100	50	150
2.	SHGs – NGOs of Sira Taluk	75	25	100
3.	SHGs – NGOs of Tumkur Taluk	100	150	250
	Total	275 (55.00)	225 (45.00)	500 (100.00)

Source: Field Survey.

54.66% of the women borrow from SHG common fund, only where as 54.14% of the members have obtained loan from both the sources namely common fund as well as money – lenders during the study period due to (a) Inadequacy of loan from the common fund. (b) Unless the first loan is cleared, second loan will not be issued under SHG scheme. Hence sometimes to meet the unexpected expenditure, they are forced to rely on money – lenders.

Impact Micro Finance on Employment in the Study Area

Sl. No.	Nature of Work	Before Micro Finance of SHGs	%	After Micro Finance of SHGs	%
1.	Only House work	185	37.0	98	19.6
2.	Milk business	10	2.0	22	4.4

3.	Lady tailor	57	11.4	76	15.2
4.	Shopkeeper	10	2.0	44	8.8
5.	Agricultural Labour	10	2.0	10	2.0
6.	Making a Broom	36	7.2	10	2.0
7.	Floor Mill	10	2.0	33	6.6
8.	Other	98	19.6	10	2.0
9.	Milk Business & Lady tailor	10	2.0	98	19.6
10.	Milk Business & Agri. Labour	22	4.4	10	2.0
11.	Milk Business & Agri. Business	22	4.4	23	4.6
12.	Milk Business & Chili cutting Machine	10	2.0	23	4.6
13.	Milk Business and Other	10	2.0	10	2.0
14.	Milk Business, lady tailor and Agri. Business	10	2.0	33	6.6
	Total	500	100.0	500	100.0

Source: Field Survey.

The percentage of females spending their time in house work has been reduced from 37 percent to 19.6 percent, indicating that they are finding gainful employment after joining the SHGs. The activities where the employment has increased are milk business, lady tailor shopkeeper and flour mill indicating the fact that more absorption is found in jobs with semi skill which are more suitable for females with low skills. The proportion of

employment with multiple activities is also significant. It shows that the females are adopting the jobs which suits are suitable to them.

Income Position of the SHG members in the Study Area

Sl. No.	Income of SHGs Member	Income Before joining SHGs	%	Income After joining SHGs	%
1.	No income	182	36.4	92	18.4
2.	1 to 10000	164	32.8	202	40.4
3.	10000 to 20000	76	15.2	82	16.4
4.	20000 to 30000	44	8.8	40	8.0
5.	30000 to 40000	34	6.8	40	8.0
6.	40000 to 50000	-	-	20	4.0
7.	50000 to 60000	-	-	8	1.6
8.	60000 to 70000	-	-	8	1.6
9.	100000 to 200000	-	-	8	1.6
	Total	500	100.0	500	100.0

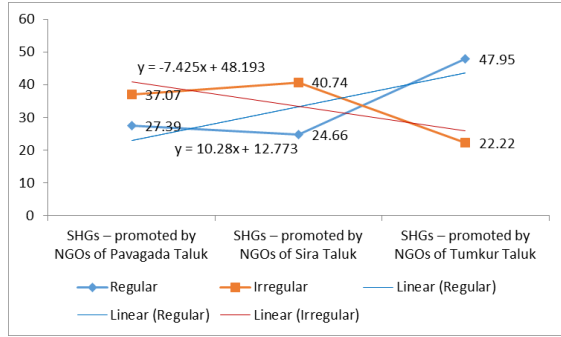
Source: Field Survey.

1. The average income of the respondents which was Rs. 8,245 has increased to Rs. 16,899, indicating an increase of 105 percent during the period of ten years. It shows an increase in the growth of income by 21 percent.
2. The increase in lowest bottom is only from Rs. 1,800 to Rs. 2,000 showing very small change in income but if we consider the top income category

it is observed that the income has jumped from Rs. 36,000 to Rs.12,00,000.

- Members have benefited differently in income generation due to differences in their skills, initial capital and knowledge.

The Regularity of Savings of SHGs in Tumkur District



And since the calculated value 21.35 is more than the table value (5.99 at 5% level and 9.21 at 1% level), it is concluded that membership of SHGs is associated with regular savings by the group members.

The Impact of SHG Loan on Employment Status in the study area

Sl. No.	Particulars	SHGs – NGOs Pavagada	SHGs – NGOs of Sira	SHGs – NGOs Tumkur	Total
1.	Unemployment to self – employment	20	30	50	100 (20.00)
2.	Wage employment to self – employment	15	25	60	100 (20.00)
3.	Expansion in employment	40	50	110	200 (40.00)
4.	No Change in	40	40	20	100 (20.00)

employment position					
Grand Total					500 (100.00)

Source: Field data

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V. SUGGESTIONS

- Controlling, testing and rolling out special microfinance products and delivery mechanisms suited to the unique requirements of women, particularly in terms of reducing women’s risk and susceptibility;
- Evaluating microfinance programmes not just on the basis of financial parameters but also using social performance indicators that focus on women’s empowerment and their access to and control over resources and making these as significant as cautious financial management in evaluating, rating and supporting MFIs/microfinance programmes/ intermediaries;
- Ensuring safeguard of women, who form the largest client segment for microfinance, by instituting appropriate ‘client protection’ and ‘client literacy’ procedures through incorporation of these aspects in a variety of laws that govern microfinance.
- The SHGs responsibility should be enhanced through its involvement in developmental programmes implemented in the backward areas. While expanding the programme for wider coverage, efforts also need to be focused on strengthening the existing groups and institutional building such as federal structures.

- Although the implementation of SHG-Bank linkage programme, the SHGs continue to face difficulties to access savings and credit smoothly.

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CONCLUSION

Apart from asset creation, the loan has been used for education of children, redemption of old – debt and for meeting emergency needs like medical expenses, marriage expenses, social function, cloth purchase, purchase of household articles, funeral expenses, redeeming of gold jewels, payment of electricity bills, etc. Therefore, micro finance initiatives have played a significant role in improving the quality of life in the study area.

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