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Micro Credit and Inclusive Growth: An Analysis

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Abstract:

It is now universally accepted that the objective of inclusive growth cannot be attained without financial inclusion. Access to safe and affordable financial services for the poor and disadvantaged people is a prerequisite for reducing income disparities and eradication of poverty. Micro Credit helps in reducing poverty. It is considered to be a vital tool to provide credit for self-employment and other financial and business services, including savings and technical assistance to the very poor people. It also serves to empower women and for the upliftment of entire community by extension of credit facilities. The Government of India has emphasized inclusive growth strategy in the eleventh five year plan. Yet, the poor people are deprived of financial facilities across the country. Micro Credit system facilitates financial assistance to the needy people. It appears to be vital in achieving inclusive growth, through generating self employment opportunities to the people at the bottom of the pyramid.

The present paper discusses the Micro Credit as an effective tool for poverty reduction and achieving inclusive growth of Scheduled Castes and Scheduled Tribes in Karnataka State, and assesses the growth and performance of Micro Credit Finance Scheme. This study is based on the secondary sources of data collected from various books, journals and periodicals. Reliable statistical information on Micro Credit beneficiaries of SC & ST population in Karnataka is also gathered from the Economic Survey of Karnataka 2012-13.

Keywords: *Micro Credit, Inclusive Growth, Scheduled Castes, Scheduled Tribes*

1. Introduction

The Government of India, under 11th Five Year Plan has emphasized on inclusive growth. It is now universally accepted that the objective of inclusive growth cannot be attained without financial inclusion. Access to safe and affordable financial services for the poor and disadvantaged people is a prerequisite for reducing income disparities and eradication of poverty. According to Kofi Annan, "the poorest people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector.... We can together build inclusive financial sectors that help people improve their lives".¹ Self Help Groups (SHGs) or Micro Credit financial intermediaries are considered to be important instrument to provide credit facilities for self-employment and business along with technical assistance to economically deprived sections of the society in India. According to the Government of India Planning Commission estimation, as on 2011-12, there were 269.3 million poor in India, of which 216.5 million resided in rural India and unable to access the banking services and are excluded from the organized banking sector. India has the fourth largest banking infrastructure in the world; even though, about 94 percent of the villages in India do not have a single branch of a leading bank. Innovations in Micro finance system help the marginalized sections, which are excluded from the financial services. The Asian Development Bank (2000) defines 'Microfinance as the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to the poor and low income households and their micro-enterprises'.² According to the Asian Development Bank, "inclusive growth not only creates new economic opportunities, but also ensures equal access to the opportunities created for all segments of society, particularly for the poor"³. Micro credit system helps to reduce financial burden of poor people through advancing loans for self employment as well as small businesses. It appears to be a

¹ He was the General Secretary of United Nations (2003). *Setting the Stage for Building Inclusive Financial Sectors*, It is Jointly Produced by the United Nations Department of Economic and Social Affairs (DESA) And the United Nations Capital Development Fund (UNCDF), United Nations New York. (2006), p.1.

² Asian Development Bank Report (2000). *Finance for the Poor: Microfinance Development Strategy*, p.2.

³ Ifzalali And Hyun Hwa Son (2007). *Measuring Inclusive Growth*, Asian Development Bank, Asian Development Review, Vol. 24, No. 1, p. 12.

vital tool for achieving inclusive growth, in the form of income, and self employment generation and it contributes immensely to the financial inclusion of the poor without which it will be difficult for them to come out of the vicious cycle of poverty.⁴ In India, micro-finance scheme is dominated by Self Help Groups (SHGs) - Banks Linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the 'un-reached poor. Financial inclusion was engineered through Micro finance in the 70s in India, when nationalized banks were assigned the responsibility of funding the poor for poverty eradication could not meet the desired objective. Micro finance is termed as "Banking for the poor" and is an opportunity to make a real dent in hard core poverty. It is a powerful tool that can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social structure.

Finance is one of the most important factors for development. Lack of capital is the one factor that keeps poor rural households inactive from improving their welfare. In rural Karnataka, literacy rate is low, social and economic infrastructure is poor. The data reveal that 44 percent of the population in Karnataka is not having banking account.⁵ Therefore, there is need for micro credit for financial inclusion of the excluded.

2. Review of Literature

Many studies have been undertaken on Micro credit and rural development in India. Some of the earlier studies are briefly reviewed here under.

In their study on *Microfinance and poverty Reduction in India*, A.K Bansal and A Bansal (2012) argued that microfinance is considered an effective tool for poverty reduction in India⁶. They also felt that provision of micro credit can facilitate the poor in the manner of consumption, management of risks, developing micro enterprises, enhancing income earning capacity and improving quality of their lives. Thus, Microfinance services contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology which helps promote overall economic growth.

In their study entitled *Micro Finance: Some Issues*, by Vijaya B., Muruges T.M. *et al.* (2013), pointed out that Microfinance is one of the means of poverty reduction in developing countries like India. The study suggests that the best way to provide financial services to economically weaker sections in rural areas of developing countries like India is the microfinance.⁷

An article entitled *Role of Microfinance on Poverty Reduction in Rural India*, of Malappa Dandgund and Nayakara Honnurswamy (2012), found that Micro Finance is a way to reduce poverty by providing basic financial services to the deprived sections of the society at affordable cost.⁸

Padmalochan Mahanta *et al.* (2012), in their study entitled *Microfinance in India - A Review*, argued that, due to the loopholes in the system, the efforts made by the central government through long term plans and schemes on poverty alleviation have absolutely failed to reach the deprived people in rural India. They also suggested that microfinance may fulfill the gap, but outreach is too small as compared to the requirement and potential. The Government and MFIs together can play a great role in poverty alleviation through providing micro credit for the poor people.⁹

In a research entitled *Micro credit and Poverty Alleviation: Can micro credit close the deal?*, M.G. Quibria (2012), found that micro credit has a positive effect on female empowerment i.e., the agency to make household decisions, which improves the consumption and Human Development Indicators of the poor women.¹⁰

3. Objectives

The following objectives have been set for the study, such as:

- To analyze the growth and performance of SHGs in Karnataka during the years 2010-11 and 2011-12.
- To assess the Micro credit-finance scheme for poverty reduction and achieving Inclusive Growth of Scheduled Castes and Scheduled Tribes in Karnataka.

4. Scope

Geographically, this study is restricted to Karnataka State. The issues related with the Micro Credit through SHGs particularly to the SC & ST population has been taken up for analysis.

⁴ Report of the Steering Committee on Micro-Finance and Poverty Alleviation. (2007). *The Eleventh Five Year Plan (2007-08 - 2011-12)*, Development Policy Division Planning Commission, New Delhi, p. 4.

⁵ Minakshi Ramji (2009). *Financial Inclusion in Gulbarga: Finding Usage in Access*, Institute for Financial Management and Research Centre for Micro Finance Working Paper Series No. 26, p. 8.

⁶ Ajit Kumar Bansal and Anu Bansal (2012). Microfinance and Poverty Reduction in India, *Integral Review - A Journal of Management*, Vol. 5, No.1, pp. 31-35.

⁷ B. Vijaya, Muruges T.M., Srinivas R.C. and Nainoor (2013). Micro Finance: Some Issues. *ASM's International E-Journal of Ongoing Research in Management and IT INCON VIII*, pp. 1-7.

⁸ Malappa Dandgund and Nayakara Honnurswamy (2012). Role of Microfinance on Poverty Reduction in Rural India, *Indian Streams Research Journal*, Vol. 2, Issue II, pp. 1-4.

⁹ Padmalochan Mahanta, Gitanjali Panda and Sreekumar (2012). Status of Microfinance in India - A Review, *International Journal of Marketing, Financial Services & Management Research*, Vol. 1, Issue 11, pp. 142-155.

¹⁰ M.G. Quibria (2012). *Micro Credit and Poverty Alleviation: Can Micro Credit Close the Deal?*, World Institute for Development Economics Research, United Nations University Working Paper No. 78, pp. 1-21.

5. Methodology

The present study is based on the secondary data which have been collected from various books, journals and periodicals. Reliable statistical information on Micro Credit beneficiaries of SC & ST population in Karnataka is gathered from the Economic Survey of Karnataka-2012-13.

6. Growth Performance of SHGs in Karnataka

Micro finance, through SHGs, in Karnataka has shown considerable progress between 2010-11 and 2011-12. In this respect detailed information, on growth of SHGs and disbursement of SHGs loan is provided in Table-1.

Year	2010-11		2011-12		Growth	
Disbursement of SHGs Loan (Amount Rs. in million)						
	No. of SHGs	Loans Disbursed	No. of SHGs	Loans Disbursed	No. of SHGs	Loans Disbursed
01	02	03	04	05	06	07
India	1202912	147687	1146185	165149	-56727	17462
Karnataka	89259	13668	87943	16295	-1316	2627
Karnataka's share	7.42	9.25	7.67	9.86		

Table 1: Growth Performance of SHGs in Karnataka : 2010-11 - 2011-12

Source: Micro Finance in India, State of the Sector Report, SAGE Publications, India Pvt. Ltd.,

New Delhi, pp 40-42

The Table shows the growth and performance of SHGs in India and Karnataka state during 2010-11 and 2011-12. The share of Karnataka in the total number of SHGs was 7.42 percent in 2010-11 and the share of loan amount disbursed was 9.25 percent. The share of Karnataka in the total number of SHGs increased to 7.67 percent in 2011-12 and the share of loan amount disbursed increased to 9.86 percent. The Total number of SHGs declined between 2010-11 and 2011-12.

7. Micro Credit Scheme for Scheduled Castes and Scheduled Tribes in Karnataka - An Analysis

This paper mainly focused on the role of Micro Credit in achieving inclusive growth of SC and ST population in Karnataka; a brief information about SC and ST population in Karnataka is thought contextual here.

The Scheduled Castes (SCs) and Scheduled Tribes (STs) are the weaker sections in Karnataka; historically they have suffered from an enormous disadvantage and deprived of basic amenities as compared to other social groups. According to the 2011 Census, the SCs & STs have accounted 17.1 percent and 7.0 percent of the total population respectively in the State of Karnataka. The literacy rate of the State has increased to 75 percent from 67.0 percent between 2001 and 2011. In case of SC's the literacy rate increased to 52.90 percent from 38.06 percent, and that of ST increased from 36.0 per cent, to 48.3 percent between 1991 and 2001 Census respectively. The percentage of people living below the poverty line in the State has declined from 25 percent to 18.5 percent (2004-05 and 2009-10). The decline in number of rural poor in Karnataka between 1973-74 and 2009-10 was 54 percent which is almost double that of the all -India decline of 29 percent.

In order to improve productive capacity and trade entitlements of Scheduled Tribes and SCs, the Government of Karnataka has implemented various programs in social and economic phenomena; among them Micro credit Scheme is one. By organizing the self help group of beneficiaries, with the help of other Government departments and nongovernmental organizations, the scheme was worked out and implemented by the Government of Karnataka for the development of the economically weaker sections of the society, particularly Scheduled Castes and Scheduled Tribes. This scheme was designed for the development of SCs and STs, belonging to semi urban or urban areas that were skilled or unskilled to start their own petty business activities. It can be shown in the following Table-2.

Year	Budget disbursed amount (Rs. in lakh)	Expenditure (Rs.in lakh)	Percentage of expenditure	No. of beneficiaries	An Average Amount per beneficiaries (Rs. In Thousands)
01	02	03	04	05	06**
2008-09	300.00	259.94	86.65	5199	4999.00
2009-10	360.00	203.24	56.46	4065	4999.00
2010-11	500.00	475.46	95.09	9509	5000.00
2011-12	550.00	550.00	100.00	5500	10,000.00
2012-13*	1550.00	435.14	28.04	4351	10,000.00
Total	3260.00	1923.78	59.01	28624	34998.00

Table 2: Micro Credit Finance Scheme of SCs in Karnataka, 2008-2013

Source: Economic Survey of Karnataka, 2012-13. Department of Planning, Programme Monitoring and Statistics, Government of Karnataka. Bangalore, p. 478.

Note: * Upto September 2012. Budget allocation and pooled Funds (includes), funds released, and expenditure in lakh.
06** Calculated value

The data provided in the Table show that during the years, from 2008-09 to 2012-13; the Government of Karnataka has increased the budgetary support to empower Scheduled Caste population. The actual utilization of the budget support was Rs 1923.78 lakhs which is 59.01 percent of the total provision. The numbers of beneficiaries were 28624. This shows that the scheme could not utilize the full potential of it.

The Government of Karnataka, from the year 2011-12, has increased to the amount of micro credit to Rs 10,000/- per beneficiary, to strengthen the Scheduled Tribes population to actively participate in business activities in Urban and Rural areas. In the beginning, the Government of Karnataka provided Rs 5,000/- as financial assistance to the beneficiaries and later it was increased to Rs 10,000/- in the 2011-12 of which Rs.5000/- will be subsidy by the Government which is a positive development. The interest rate is 4 percent per annum. The progress of the Micro Finance scheme is presented in Table-3.

Year	Total amount disbursed (Rs.lakh)	Expenditure (Rs in lakh)	Percentage of expenditure	No. of beneficiaries	Percentage of amount Utilization per beneficiaries (Rs in thousands)
01	02	03**	04***	05	06****
2008-09	141.86	141.85	99.99	2737	5,183
2009-10	88.00	88.00	100.00	880	10,000
2010-11	112.40	112.40	100.00	2248	5,000
2011-12	100.00	100.00	100.00	1000	10,000
2012-13*	55.60	55.60	100.00	556	10,000
Total	497.86	497.85	99.99	7421	40183

Table 3: Progress of Micro Credit Scheme of STs in Karnataka

Source: Economic Survey of Karnataka, 2012-13. Department of Planning, Programme Monitoring and Statistics, Government of Karnataka. Bangalore p.486.

Note: * upto September-2012

03** Calculated value 04 *** Calculated value 06**** Calculated value

The Table-3 shows the total amount disbursed and percentage of expenditure for the economic empowerment of Scheduled Tribes in Karnataka, from 2008-09 to 2012-13. It is clear from the table that the total amount disbursed from the budget was completely utilized for the desired purpose.

8. Findings

It is found from the study that, Karnataka's share in SHGs is loan disbursement of India has shown increasing trend over the period 2010-11. It is also focused by the study that, in respect of Karnataka, as compared to 2010-11, the number of SHGs decreased and loan disbursement increased in the year 2011-12. Further, it is also found in study that, from the year 2008-09 to 2012-13, budget disbursement amount through micro credit scheme for SCs continuously increased but in overall budget

disbursement amount of only 59 percent has been utilized during the above said period. It can also be viewed from the study that, astonishingly, STs effectively utilized micro credit scheme over the period 2008-09 in Karnataka, visa, versa, due to lack of awareness about micro credit scheme, SCs were failed to utilize budget disbursement amount under micro credit scheme in Karnataka.

9. Suggestions

Based on the above findings some useful suggestions are made below:

- The Karnataka state Government has to take encouraging steps to improve SHGs.
- State Government has to enhance budgetary disbursement amount under micro credit scheme for SCs and STs in future budgets.
- It is necessary to arrange awareness camps for SCs and STs to create more awareness about Micro Credit scheme in Karnataka.

10. Conclusion

The Government of India established numerous subsidized wages and self-employment programs for the advantage of the poor and the marginalized sections of the society. The micro credit scheme is one such scheme aimed at eradication of poverty and achieves financial inclusion. It provides for credit and other financial services and products of very small amount to the poor and marginalized sections in rural, semi-urban and urban areas. The participation of disadvantaged groups and women belonging to Scheduled Castes and Scheduled Tribes in the economic activities is utmost important to achieve inclusive growth. The foregone analysis shows that the Micro credit finance scheme for the STs has, to some extent, reached the downtrodden but the progress under the scheme for SCs was miserable as only around 59 percent of the budget allotment is used. The micro-finance scheme has brought a large number of people under inclusive growth. Yet, there is further scope for improvement.

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