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ROLE OF MICRO CREDIT IN POVERTY ERADICATION: A CASE STUDY IN CHITTOOR RURAL MANDAL OF ANDHRA PRADESH

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ABSTRACT

Recently the concept of micro credit has been given huge prominence at the global level in order to eliminate poverty and to raise the living conditions of underprivileged and growth excluded groups across the world countries. Community development and poverty eradication through micro credit which combines use of training, organization and career development, efforts to improve individual, group and organizational effectiveness develops the essential abilities that enable individuals to perform present and future income generation through planned learning activities. This is not only related to those who are employed but also it is necessary even for those who are socially and economically backward sections and groups to improve their living standards and empowerment. The essential credit supplied at an affordable rate and in time for those who have the capacity to invest it in a suitable productive manner could help to improve their social and economic standards. Many of studies throughout the world evidently concluded that the reliable and affordable credit helps the poor to come out from the vicious circles of poverty. This paper has made an attempt to describe the role of micro credit in eradication of poverty by estimating income generating opportunities and income levels raised by micro credit supplied through self-help groups which results in lifting the rural poor from the poverty crunch in Chittoor rural mandal of Andhra Pradesh.

Keywords: *micro credit, self-help groups, income generation and poverty eradication*

INTRODUCTION

Community development and poverty eradication is now on the political and economic agendas of most nations around the world in recent decades. Thus the countries have been made a special focus on community empowerment through a variety of strategies. A better future for all claims that community empowerment can be most fairly and effectively achieved by addressing health, education, income, and gender disparities together with the need for global action on provision of financial and banking facilities to those, especially the poor groups of the society. As NABARD stated, the supply of in time and adequate credit without collateral pressures came to be recognized by the authorities of all over the world countries as a remedy for many of the ills of the poverty and community empowerment. Thus, a variety of credit packages and programmes were designed based on the perceived needs of the poor especially to concentrate on women as the members in a group, who pay more responsible to the credit acknowledged. Besides the programmes initiated by the Central and State Governments, many of attractive credit-based programmes were also introduced by NABARD especially to encourage women groups, farmers clubs and other groups which were financially excluded by the times of development. These new innovative programmes and policies also underwent qualitative changes based on the experiences gained in order to develop the groups at the bottom level.

From the evidences experienced in all over the world it is clear that the economies rely upon the financial intermediaries to transfer resources from savers to investors. In market economies, this function is performed by a well-established source of commercial banks and the capital markets. More widespread financial intermediation, as well as increasing depth and variety, is a hallmark of advancing development. But in many developing countries like India capital markets are still at an elementary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. Thus the poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs that would be disproportionate to the amount of lending. A study by the International Fund for Agricultural Development (IFAD) has confirmed that protracted loan procedures and paper work, combined with a lack of accounting experience, limit poor people's access to formal sources of credit. Other reports cite the fact that commercial lenders in rural areas prefer to deal mainly with large-scale farmers and other high incomed groups only. They mainly pointed out that the bankers are reluctant to lend credit to the marginalised sections including the women who failed to submit collateral against to the borrowings. In addition to the above, global poverty crisis and resulting human suffering, environmental degradation, civil unrest and many other societal ills, are hastening the search for scalable anti-poverty approaches. These deplorable conditions are the source of the growing interest in micro credit and, more broadly, microfinance. Of course, gatherings such as the micro credit summit, global support through the U.N.'s International Year of Micro Credit, and articulate spokesperson such as Dr. Muhammad Yunus have also attracted worldwide attention for microfinance.

All these continuously gave a rise to the concept of micro credit for the poorest segment especially the women along with a new set of credit delivery techniques. With the support of NGOs an informal sector comprising small Self-Help Groups (SHGs) started mobilizing savings of their members and lending these resources among the members on a micro scale. The potential of these SHGs to develop as local financial intermediaries to reach the poor has gained recognition due to their community-based participatory approach and sustainability. Their loan recovery rates have been significantly higher than those achieved by commercial banks in spite of loans going to poor, un-organized individuals without security or collateral. Thus, microfinance addresses, it appears, a moral necessity more than anything else. By empowering the women through credit extension, this innovative idea of microfinance tackles a serious drawback of the contemporary economic system, that is, the exclusion of the poor from the financial system. Recently, microfinance institutions have begun a variety of innovative schemes, such as the BRAC Ultra-Poor Program; have opened up pathways to economic activity and access to financial services for the extreme poor. An inclusive financial sector allows the poor and low income people to access to credit, insurance, remittances and savings that will supports full participation of the women with lower income levels. But, in many countries, the financial sectors do not provide these services to the poor women and they struggled for maintaining even the basic life standards. So, it is highly needed to satisfy the financial needs of that un-bankable poor women to raise their living standards by financing i.e., through either the formal microfinance institutions or nationalized banking sector at an appropriate levels of interest rates, which are suitable to those financially excluded groups.

In this connection the programme of microfinance which includes micro credit becomes as a most believable solution of poverty eradication in all parts of the world in recent few decades. Subsequently the UNO in its announcement of declaring the year 2005 as "Year of Micro credit" remarked that "Micro credit has been changing people's lives and revitalizing communities". But, it is very important to note that without encouraging the debtors into the productive activities, micro credit alone becomes further harmful to the received vulnerable sections of the society. That is why Muhammad Yunus (Expanding Micro credit Outreach to Reach the Millennium Development Goals, International Seminar on Attacking Poverty with Micro Credit, Dhaka, Bangladesh, January-2003) stated that "Micro credit is based on the principle that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills, which make poor people poor, hence the charity alone is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty".

Micro credit that is channelized through SHG-Bank Linkage Programme (SBLP) contributes much for upliftment of poor families especially in rural India from the recent few decades. Self-Help

Group based micro credit programme in India, and especially in Andhra Pradesh, has become a major tool for development of the poor groups in rural areas. Group systems for eradication of poverty through micro credit evolved in Bangladesh and highly succeeded in Latin American countries. They have promoted the development of poor women through micro credit without collateral security. Since NABARD got involved in the propagation of SHG system in India, it has given specific guidelines regarding the role and functions of NGOs and banks for formation and management of SHGs as main functionaries to eradicate poverty. The NGOs and banks were found to be the best vehicles for organizing SHGs and make the system as effective and efficient as possible. However effective functioning of SHGs is to be ensured in order to initiate and sustain income-generating activities to improve the economic conditions of poor families. Through micro credit for women specially, they become equal partners with men as a human resource contributed much for both to their family and nation's development. The present study emphasizes on the impact of micro credit that has been supplied through SBL Programme of NABARD in the study area. The objectives were: 1) to assess the impact of micro credit on the Employment and Income sources; and 2) to assess the impact of micro credit on assets of the sample respondents

RESEARCH METHOD

The present study is based on the primary sources of data. Primary data was collected with the help of questionnaire in the financial year ended by March 2013. Considering various constrains, the sample selection of SHG members who are involved in SHG-bank linkage programme from Chittoor rural mandal of Chittoor District in Andhra Pradesh State was done on the basis of convenient sampling method. The sample size confines to 60 respondents from various groups received micro credit through women SHGs in the study area. In this paper an attempt has been made to analyse the impact of micro credit on income generation and their asset creation. For this a comparative study of the position of the sample respondents 'before' and 'after' receiving the micro credit from the SHG-Bank Linkage Programme (SBLP) was made. The impact was measured as the difference in the magnitude of given parameter between pre-credit (before) and post-credit (after) situations. Data on various economic aspects such as credit utilization pattern, employment, income and asset creation were collected and analyzed with the help of simple statistical techniques like percentages and growth rates to assess the poverty reduction that was succeeded through micro credit.

RESULTS AND DISCUSSION

Credit utilization pattern of sample respondents

The credit utilization pattern of SHG-Bank Linkage Programme (SBLP) sample respondents is shown as a better indicator of the maturity level of sample respondents in terms of taking right decision in order to improve their living standards and raise the level of empowerment. It is widely accepted that the access to larger and cheaper credit helps to improve the welfare of micro credit beneficiaries. But, this relies on the assumption that the sample beneficiaries use their loans for productive activities which would improve their living standards. The research question about the purpose for which the women sample beneficiaries utilize the bank credit indicates their level of matured perception of the beneficiary. The impact of bank credit on the well-being of the members of family depends on the purpose and extent to which the sample beneficiaries utilize the credit. A production-oriented (income-generating) loan such as investing on cultivation, business, buying milch cattle and other income generating-activities has more potential for increasing household's income and improve welfare of the families of sample beneficiaries than a loan used for celebration of ceremonies and other unproductive activities.

The credit utilization pattern of sample respondents is shown in Table 1. Majority of sample respondents constituting 68.33 percent utilized their loan amount on income-generating activities, whereas: 11.77 percent spent on un-productive activities like traditional functions, purchase of household appliances and on other facilities like tap connection, house renovation etc. followed by 03.33 of respondents who used their loan amount to meet the medical expenses and Five percent of

Table 1. Credit utilization pattern of sample respondents

Sl. No	Utilization of Credit		No. of Respondents	Percent to Total
1	(A) Credit Utilized for Specific objects			
	a	Productive	41	68.33
	b	Clear Other Loans	07	11.77
	c	Un–productive	07	11.77
		Sub-Total	55	91.77
2	(B) Credit Utilized Unforeseen objects			
	a	Medical expenses	02	03.33
	b	Other expenses	03	05.00
		Sub-Total	05	08.33
3	Total Sample Respondents		60	100.00

Note: Percent refers the percentage to the total number of respondents.
Source: Field survey

sample respondents who used it to meet for other unforeseen expenses. From the observations, it is significant to note that the majority constituting 91.77 percent of sample respondents immediately utilized their credit for different activities, which implies that the respondents had a pre-prepared credit planning for the utilization of bank credit. The rest of 08.33 percent of sample respondents took less than one month time to plan for credit utilization.

Micro credit and employment generation

One of the most important objectives of microfinance programme is the creation of employment to rural poor by raising their investment capability. To ensure that women take active part in productive (income-generating) activities, the SBL programme assisted the rural women with collateral-free credit and guided them through proper training facilities and, no doubt, most of the sample respondents benefited from the SBL programme. The sample respondents were asked to state the extent to which they could get employed in different income-generating activities as a result of the financial support by the micro credit. Table –2 reveals that the responses of the sample respondents on employment generation in terms of different activities with the help of micro credit.

The Table 2 presents the distribution of sample respondents in terms of different activities, in which they got employed through micro credit. It was found that 28.33 percent of sample respondents got employed by milch cattle and dairying, followed by 18.33 percent in agriculture and 15.00 percent by maintaining a petty shop / business through an adequate micro credit from SHG-bank linkage programme. The most important objective of micro credit is to create employment in non-agricultural activities through the supply of adequate and timely credit is not realized in the study area; whereas, only 15.00 percent of sample respondents got their employment in business and other activities. Besides, it is significant that 31.77 percent of sample respondents spent their loan amount for unproductive activities, which did not lead to productive employment opportunities. Among those sample respondents who made unproductive investment, a considerable number of respondents constituting 08.33 percent utilized their loan amount on 'house construction', followed by Five percent of sample respondents who invested on children's education; whereas, another 11.77 percent of sample respondents used the loan amount to clear old debts.

Micro credit and income generation

Raising the living standards and eradication of poverty by increasing their sources of income, which ultimately results in the development of human resource is the main objective of SBL based micro credit programme. But, the chance of increasing the sources of income is highly subjected to the beneficiaries' credit utilization pattern and their skills of managing the loan amount. However, NABARD provides credit utilization programmes to train the beneficiaries' so that loan amount might be

Table 2. Sample respondents employment generation through micro credit

Sl. No	Micro Credit Improves Family Employment		No. of Respondents	Percent to Total
1	*Yes – through Credit utilised for*			
	a	Agriculture	11	18.33
	b	Milch Cattle / Dairying	17	28.33
	c	Petty Shop / Business	09	15.00
	d	Others	04	06.77
		Sub-Total	41	68.33
2	*No – because of Credit utilised for*			
	a	House Construction	05	08.33
	b	Children Education	03	05.00
	c	Clearing Old Debt	07	11.77
	d	Others	04	06.77
		Sub-Total	19	31.77
3	Total Sample Respondents		60	100.00

Note: Percent refers the percentage to the total number of respondents
Source: Field survey

utilized productively. The impact of micro credit on sources of income depends on the productive activities which the beneficiaries have undertaken. In this connection the sample respondents were asked whether they could tap new sources of income through micro credit extended to them. The Table 3 reveals that the responses of the sample respondents on income generation through different activities with the help of micro credit.

Table 3 refers to the distribution of sample respondents in terms of different activities, which served as sources of income through micro credit. It was found that for 28.33 percent, out of 60 sample respondents, maintenance of milch cattle and sale of milk and milk products is the major source of income; whereas, only 15.0 percent of the total sample respondents could set up their own business or get self-employed owing to lack of awareness of the availability of alternative or self-employment opportunities and low levels of job-specific skills in the absence of effective training programmes. Significantly, 31.77 percent of sample respondents utilized their loan amount for non-income generating (unproductive) activities. Among the respondents who made unproductive investment, a significant number constituting 11.77 percent used the loan amount to clear the old debts; whereas, 08.33 percent of sample respondents utilized their loan amount for house construction, followed by 05.00 percent of sample respondents who have invested on children's education to ensure better future for their children and the rest 06.77 percent have spent the loan on other non-income generating activities like traditional functions etc. However for majority of respondents (68.33 percent) the micro credit had a positive impact on improvement in their family income, but from the analysis it is significant to note that the micro credit invested on various income generating activities could not yields the income for all respondents as the same. From the observations it was cleared that a considerable number of beneficiaries (31.77 percent) would not able to get proper returns from their investments made through micro credit in respect to unexpected shocks like low productivity, crop failure, low market price, and loss of milch animals and goats etc.

Micro credit and family income level

In order to eliminate poverty through micro credit the authorities have been believe and prioritized the women, who constitute half of the population in the society. They play an important role in their family in many ways and through it they contribute much more than the men in order to achieve good qualitative living standards of the family. It was observed in all over the world that they actively participated in a variety of income-generating activities with an objective of raising their family's living standards by contributing income as an addition to their family members' income, which

Table 3. Sample respondents income generation through micro credit

Sl. No	Micro Credit Improves Family Income		No. of Respondents	Percent to Total
1	*Yes – through Credit utilised for*			
	a	Agricultural Production	09	15.00
	b	Milk Production	17	28.33
	c	Business / Self-Employment	09	15.00
	d	Others	06	10.00
		Sub-Total	41	68.33
2	*No – because of Credit utilised for*			
	a	House Construction	05	08.33
	b	Children Education	03	05.00
	c	Clearing Old Debt	07	11.77
	d	Others	04	06.77
		Sub-Total	19	31.77
3	Total Sample Respondents		60	100.00

Note: Percent to total refers the percentage to the total number of respondents
Source: Field survey

finally results in come out from the poverty circles. In this connection, Table –4 reveals the changes in the levels of family income of sample respondents 'before' and 'after' availing the micro credit from SBL programme.

The Table 4 shows the distribution of the household annual income 'before' and 'after' securing credit through the SBL Programme. Here, household income represents the total income of the family members from all sources. The earnings of family members are the supporting source of income for the respondent. The higher family income leads to a better standard of living and a better family environment. From the Table 4, it is observed that in the period 'before' securing the micro credit, 30.00 percent of the total sample respondents family income was less than Rs.20000, whereas; for 45.0 percent of the sample respondents the family income was between Rs.20000–29999; for 21.77 percent sample respondents, it was between Rs.30000–39999; for only 03.33 percent sample respondents family income was in the range of Rs.40000–49999 and there was not even one respondent with a family income of Rs.50000 and above.

Table 4. Micro credit impact on shifts in family income levels of respondents

Sl. No	Family income levels in Rs.	No. of respondents families in different income groups as 'before' and 'after' availing micro credit			
		Before		After	
		No. of res.	Percent	No. of Res.	Percent
1	Up to 19999	18	30.00	01	01.67
2	20000–29999	27	45.00	05	08.33
3	30000–39999	13	21.77	12	20.00
4	40000–49999	02	03.33	22	36.67
5	50000 & Above	00	–	20	33.33
Total Sample Respondents		60	100.00	60	100.0

Note: Percent to total refers the percentage to the total number of respondents
Source: Field Survey

Besides, it is inferred that there was considerable rise in the income levels of the sample respondents' families 'after' taking the micro credit through SBL Programme. Out of 60 sample respondents, only 01.67 percent of sample respondents subsisted with less than Rs.20000; whereas, 08.33 percent of sample respondents families income was between Rs. 20000–29999; 20.00 percent sample respondents families had income between Rs. 30000–39999; 36.67 percent sample respondents families came under the income range of Rs. 40000–49999 and it is significantly noted that 33.33 percent sample respondents families had Rs. 50000 and above, per year in the post-credit period. From the analysis, it is clear that the number of respondents shifted from the low income range to higher income range indicates the positive impact of micro credit on income levels.

Micro credit and productive asset creation

As there are many factors that influence the loan utilization of the beneficiaries of micro credit, most of the beneficiaries who secured loans from private micro credit institutions did not properly utilize their loan amount for productive purposes, which incapacitated them to repay the loan amount and faced many problems passed by private microfinance lenders. It was experienced even in Andhra Pradesh State which is the mother land for microfinance and highly performed State in India. It is always easy to repay the loan amount, if it can be invested on an income generating activities or on productive asset creation. As the programme of micro credit through SHG-Bank linkage is aimed at improving the living standards of the poor groups by providing them credit for productive asset creation, which empowers them, the sample respondents were asked as to how far they could utilize the loan amount for productive asset creation with micro credit.

Table 5 presents the distribution of sample respondents by their acquisition of productive assets through micro credit in the study area. It was observed that out of 60 sample respondents, only 10.00 percent of sample respondents utilized loan amount for purchase the productive asset of land followed by 26.67 percent of sample respondents invested their loan amount on purchase of milch animals; whereas, 08.33 percent of sample respondents used their loan amount to purchase sheep and goat and a Five percent spent it on purchase of vehicles. On the whole 25.00 percent of sample respondents creating other productive assets like tailoring missions, poultry items etc., as their source of income. Besides, it is observed that the percentage change in access to vehicles after availing micro credit is noticed as Three times than before availing the credit, followed by the change in number of respondents families that acquired sheep and goat (62.50 percent), milch animals (44.44 percent), and land (25.00 percent). It was also found that 15.79 percent of increase in number of respondents' families that acquired other productive assets like tailoring missions, poultry items etc., as their source of income.

Table 5. Micro credit and productive asset creation by sample respondents

Sl. No.	Name of the asset	No. of respondents acquired productive assets before & after taking micro credit			Beneficiaries access to assets through micro credit (Percent to the total)
		Before	After	Change (Percent)	
1	Access to land	24	30	25.00	10.00
2	Milch animals	36	52	44.44	26.67
3	Sheep / goat	08	13	62.50	08.33
4	Vehicles (auto, etc.)	01	04	300.00	05.00
5	Other assets (tailoring mission, poultry etc.)	38	44	15.79	25.00

Note: Total respondents – 60 and the change refers the percentage of change in number of beneficiaries having the asset before to after availing the micro credit

Source: Field survey

CONCLUSION

From the above analysis it is evidently proved that micro credit is an important and succeeded strategy for poverty reduction in India by the way of productive employment and income generation. But, by the observations of the present study it is found that the considerable number of the sample respondents has not utilized the total loan amount for productive purposes. The respondents, who use their loan for productive purposes only witnessed progress in their overall employment and income levels which enable them to improve their living standards. While a considerable percentage of respondents incurred unproductive expenditure, it is highly essential to monitor the utilization of micro credit in order to develop the poor groups who were experienced with negative effect from the same above succeeded strategy of micro credit. In this connection, it is suggested that to achieve one of the major objectives of micro credit is to support the rural poor engaged in non-agricultural activities, micro credit beneficiaries in lower income groups who are unaware of utilizing the credit for improving their skills and productive efficiencies, as compared to the higher income groups, should be given preferential treatment in the disbursement of micro credit and provision of training facilities to make credit as profitable. It is also important that the habit of thrift must be cultivated by the members who must be motivated to impose self-ceiling on their desires to save more out of their incremental income and make sound investment for the expansion of their business or any other income generating activity.

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