CHAPTER-I

INTRODUCTORY BACKGROUND AND RESEARCH DESIGN
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1.1. Introduction

Credit plays an important role in economic development. It is an important input for productive activity. It meets the capital requirements for new start-ups or expansion of existing production lines. It also meets the requirements of ongoing production activity. Besides its role in meeting capital requirements in the productive sectors, credit also plays an important role in day-to-day life as it helps in consumption smoothening, i.e. bridging the gap between present consumption and present income, especially in rural areas. Thus, as far as the demand for credit is concerned, it may be broadly divided into two categories: production credit and consumption credit.

The basic tenets of Walrasian economics suggest that in an economic system where market mechanism prevails, it is the price, which clears the market. Hence, in case of credit also, price of credit (i.e., the rate of interest) is determined thorough the demand and supply forces. The interest falls with the increase in supply of credit with the given the demand for credit. The fall in rates of interest leads to an expansion of credit, both for production and for consumption. Both of them exert a positive impact on the investment levels in the economy. But the former exerts it directly while the later indirectly. An increase in production and consumption activity, due to increase in availability of credit, leads to increase in investment in the economy and hence an increase in employment and income.

The availability of credit has far-reaching implications for the growth of an economy through its impact on investment. Though the availability of credit affects
the level of investment in the economy positively; the magnitude of its impact is closely linked to the extent of dualism in the economy. Dualism is nothing but the concomitant existence of developed sector along with an underdeveloped sector in an economy. Because of higher marginal propensity to consume, it is logical to expect that the influence of credit availability on growth is higher in case backward sector than that of the developed sector. Dualism is a widely prevalent phenomenon in the developing countries. Absolute poverty is a reflection of such dualism.

India is a developing country in which about 30 per cent of its total population still lives below poverty line. The poor population is mainly concentrated in rural areas. These poor people are malnourished and most of them are unemployed. Therefore, poverty alleviation has remained the major focus for development practitioners since the independence of India. A number of initiatives are taken from time to time by the government to alleviate poverty. In the development strategy adopted up to 1980s, institutional credit was considered as a powerful instrument for enhancing production and alleviating poverty. It was thought that lending to the poor should be a part of the normal business of banks. The strategy devised for this purpose was comprised of the expansion of the institutional structure, directed lending to the priority sector and subsidized interest rates to the poor. A multi agency approach was adopted for delivering credit to the rural poor people. The institutional vehicles chosen for this purpose were cooperative banks, commercial banks and regional rural banks. The nationalization of fourteen major commercial banks in 1969 and another six commercial banks in 1980 and the setting up of regional rural banks in 1975 enabled the creation of an extensive financial infrastructure for taking banking to the far-flung rural areas. The extensive bank branch network was expected to meet the financial needs of the entire rural population.

An analysis of poverty situation reveals that lack of access to capital - whether monetary, educational, or health - is one of the major reasons for continued
poverty especially in rural sector. The timely availability of credit in the right quantity and at an affordable cost can help to reduce the high incidence of poverty and thus go a long way in contributing to the well being of the people, especially in the lower rung of rural society.

As far as the supply of credit in the rural economy is concerned, there are basically two broad classes of sources of credit: institutional sources and non-institutional sources. The high incidence of poverty and its correlates prima facie call for higher availability of credit in the rural economy. There also exists a high demand for the same, though a significant portion of total demand for credit in the rural economy is for consumption credit. The high demand for credit is reflected in terms of high rate of interest charged by the village moneylenders. The rural borrowers pay a high price for credit than their urban counter parts. In a neoclassical framework, such anomalies are not supposed to exist. In Walrasian economics, it is expected that the high interest rate should drive the credit to the rural economy. However, unfortunately that does not happen. In other words, the so-called market mechanism or Walrasian economics, fails in the poverty ridden rural economy. It fails because of several factors like information asymmetry, infrastructure bottlenecks, poor expected rates of return on investment etc. Hence, the only alternative for breaking the deadlock (i.e. vicious circle) in a poverty ridden, backward rural agricultural sector is the affirmative action by the State. Easing the credit constraints in the rural economy has been one of the main concerns of planners in India. In India, the state has always played an important role in rural finance.

The chapter is organized as follows: Section 1.2 presents the theoretical and empirical perspectives. Section 1.3 states the research problem and Section 1.4 presents the objectives of the present study. The hypotheses of the present study are listed in section1.5 while section 1.6 describes the data and methodology. Section
1.7 discusses the significance of the study. Section 1.8 highlights limitations of the present and last section presents chapter scheme of the thesis.

1.2. Theoretical and Empirical Perspectives

First, in traditional approach to rural finance, the production side of rural farm households is generally seen as providing the logic for rural credit. What is forgotten in the whole process is the poor households demand for financial services relating to consumption smoothening, human capital formation, off-farm income generation activities, and insurance and saving services (Zeller, 1995). In a study conducted for the World Bank, the nature of demand for financial services by rural poor in India was assessed through a client survey (Mahajan and Ramola, 1995). In the study, it was found that the financial services important for the rural poor, were consumption credit savings, production credit and insurance. Consumption credit constituted two thirds of the credit needs, the rest being requirement for production credit. Consumption credit included illness expenses and other household expenses during the lean season. Informal sector was meeting this consumption need with a higher rate of interest. The formal rural financial institutions were able to meet two-thirds of the production credit requirements.

Second, the problem of recovery was another shortcoming of the traditional approach to rural finance. It is often very difficult to monitor exactly what is being done with a loan. A loan may be taken for an ostensibly productive reason, but may be used for other needs that cannot be easily transformed into monetary repayment. A loan may be put into a risky productive activity that may fail to pay off. This creates the problem of inability to repay’ or involuntary default. This is different from a situation where the borrower can repay the loan but does not find it in his interest to do so. Most of the time, it has been found that the weak legal system of enforcement being responsible for the above state of affairs.

Third, the traditional poverty alleviation paradigm in banking sector manifested in project lending approach placed particular emphasis on technical
feasibility and economic viability aspects of investments. The economic returns from such investments were expected to propel low-income households above poverty line. It further presumed that poor prefer self-employment and have necessary managerial ability to readily accept the challenge of occupation mobility and they can acquire the new production and marketing skills with relative ease. But this approach also could not benefit many of the poor households.

Fourth, another important aspect which missed the attention of development planners under the traditional approach to rural finance was information asymmetry between the banks and poor borrowers (NABARD, 2003).

Hence, during the liberalization period it was felt that the rural credit system needs a fresh approach that could induce rationalization of the processes, policy and regulations and consequently increase returns. Since, the initiation of financial sector reform, there has been a whole rethinking at the policy level about how to make the rural financial system viable and at the same time improve access of the poor to finance. Along with banking sector reform, the quest for a viable rural financial system is also a significant feature of the financial liberalization in India.

While the GOI tries to widen the micro-credit reach for the million poor in India through the self-employment scheme, namely, SGSY, the NABARD envisages reaching banking services to one-third of the very poor in India, that is, a population of about 104 million rural poor.

1.3. Statement of the problem

The microfinance no doubt has brought a paradigm shift in the rural credit as well as the vision of central bank and Governments, State and Central. It also resulted in to participation of poor in the development process. The task force on Microfinance as defines it as provision of thrift, credits and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. Similarly, International Labour Organization defiance, micro finance is an
economic development approach that involves providing financial services through institutions to low income clients. Actually, in some form or the other, the concept of microfinance always existed in almost each society. But as a more formal and modern process, the history can be traced back to portion of the Marshall plan at end of Second World War in the middle of twentieth century or even back.

The Gulbarga district which is located in the Northern part of Karnataka, the main component of Hyderabad Karnataka Region, which is on the most backward region of Karnataka. The Chittapur, Chincholi, Jewargi, Aland and Afzalpur talukas are most backward and poorest talukas of Gulbarga district. There is higher rate of illiteracy, non-development of industry, non-availability of non-agricultural occupations, resulted into higher incidence of poverty and unemployment. The present study intended to study the microfinance intervention and poverty reduction in Gulbarga district. An elaborate study will throw a light on the actual working of microfinance institutions and its efforts in liquidate the rural community of Gulbarga district. The number SHGs bank linkage programme is working and there growth over a period of time shows clearly the development realize by this area.

The twelfth plan has intended to achieve an inclusive growth, to realize this, all regions should participate in the development process and achieve equal growth. The finance is a key to achieve higher growth in rural area. Therefore, the study on microfinance interventions and poverty reduction in Gulbarga district of five talukas as gained currency.

1.4. Objectives of the study

In the light of the above background, the objectives of the present study are formulated as follows:

- To assess relative position of SHGs finance in the delivery of total rural finance.
- To probe the effect of microfinance services provided by SHGs on income and employment levels of beneficiary households.
To examine the effect of microfinance on the saving habits of rural poor.
To empirically investigate changes in poverty levels of beneficiaries of SHGs.
To suggest policy measures for further implication.

1.5. Hypotheses

The present study proposes the following hypotheses:
- The presence of microfinance groups offers opportunities of savings and provides access to credit particularly poor households.
- The microfinance has helped the poor to participate in the development process.
- Microfinance has acting as an anti-poverty agent through increasing income and employment.

1.6. Methodology and Data Source:

As the topic is of a recent origin, both primary and secondary data is essential to make effective evaluation of Microfinance in poverty alleviation. This study collected Secondary level data from different sources like Government office, District Statistical office, NABARD, Block development office, women and child development office to make analysis and draw the conclusion.

To make primary investigation, Gulbarga district is selected as a study area and five talukas were chosen for field survey. Based on the previous studies, literature survey and reports of various agenesis, the questionnaire was prepared for the collection of data. In the present study, targeted group is SHG’s members in all the five talukas of Gulbarga district. Out of the all SHG’s members of five talukas of Gulbarga district, randomly 10% of beneficiaries each village has been interview for getting information. Further, two villages from each talukas were taken into account for to find out the impact of microfinance and poverty reduction.

1.6.1. Sampling Design

The Gulbarga District consists of seven talukas namely, Gulbarga, Chincholi, Chittapur, Sedam, Jevargi, Afzalpur, Aland. This study chooses the Gulbarga District purposefully for the present study. To facilitate collection of data...
with resources, we have selected from most backward areas in the district of Gulbarga namely, Chittapur, Aland, Afzalpur, Jewargi and Chincholi as per the Dr. Nanjundappa Committee Report. The present study has selected sample 10% of universe of selected village that same in shown in the below table.

### Table 1.1

**Sampling design**

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Villages</th>
<th>Selected sample in percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chittapur</td>
<td>Malagatti</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Gola (K)</td>
<td>10</td>
</tr>
<tr>
<td>Aland</td>
<td>Kadaganchi</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Tadkal</td>
<td>10</td>
</tr>
<tr>
<td>Afzalpur</td>
<td>Choudapur</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Atanoor</td>
<td>10</td>
</tr>
<tr>
<td>Jewargi</td>
<td>Mandeval</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Ganwar</td>
<td>10</td>
</tr>
<tr>
<td>Chincholi</td>
<td>Halchera</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Ratkal</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

1.6.2 **Techniques of Data Collection**

The survey method has been used for the collection of data from the sample SHGs members through direct canvass of the interview schedules.

1.6.3 **Analytical Procedure**

The primary data collected through interview schedules are organized in a tabular form; various statistical methods such as average, percentage have been used to analyze the data. Further to find out the reduction of poverty from SHGs through employment and income generation activities from cross table and Chi-square value calculated from primary data.

1.7. **Justification**

Hyderabad Karnataka is located at Northern part of Karnataka, generally called as backward area of Karnataka due to poverty. Gulbarga is one of the districts, which considered as a most backward region among the six districts of Hyderabad Karnataka region as per the report of Dr. Nanjundappa Committee Report.

The present study has been justified on the following grounds.
1. The Gulbarga district, which is located in the Hyderabad Karnataka region, is an economically backward region. Therefore, the study of micro-finance and poverty reduction is most important aspect in this region.

2. The micro-finance has become a vehicle for eradication of poverty. The Hyderabad Karnataka Region is economically poor area; the study of micro-finance in this area is one of the most important aspects for poverty eradication in this region.

3. The micro-finance unit will promote saving and investment habits among the peoples, saving and investment will definitely enhance the income of people therefore, this study is important.

4. The loans given by micro-finance will promote small entrepreneurship in rural area the promotion of entrepreneurship will have a deficient important on employment generally strategy therefore the present study is one of the important aspect for policy implications.

1.8. Limitations of the Study

The present study limits itself to the Gulbarga district. This also selected only five sample areas as a sample for study. Most of the secondary data or published by government office many times secondary data may not be actual reflect us of the fact. The present study has selected only five years period and only 220 respondents. However, with all limitations the researcher has tried his level best to present an appropriate results based on scientific method of the study.

1.9. Chapter Scheme

The study is designed into the following seven chapters which are as follows:

Chapter-I: Introductory Background and Research Design
Chapter-II: Review of Literature
Chapter-III: Overview of Microfinance
Chapter-IV: Microfinance in Karnataka
Chapter-V: Profile of the Gulbarga District
Chapter-VI: An Evaluation of SHGs Members
Chapter-VII: Summary, Findings and Suggestions
REFERENCES


