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Review Article

IMPACT OF MICROCREDIT ON FARMERS' INCOME

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Abstract: Timely and adequate availability of required farm inputs is must for agricultural development but majority of our farmers' are very poor. So, lack of finance and its accessibility are one of the main reasons for low productivity and hence income of the farmers. Microfinance can thus play an important role in agricultural development. Microfinance is basically a programme to help the poor people financially in order to maintain their social and economic status.It also helps them to pay off their debts and improving their investment capacity. The concept of microfinance is not new in India but report says still only a meager percentage of farmers avail credit from formal institutions and rest depend on informal sources like money lenders and relatives. The paper suggests that in order to improve farm productivity and income of the farmers', government should take immediate initiatives to establish sufficient financial outlets in rural areas with farmers' friendly and timely credit facilities. This study also aims to emphasize the challenges and issues farmers face in accessing credits from the formal sources. Finally the paper suggests ways to mitigate these challenges.
Keywords: Credit, Micro Credit, Microfinance, Finance, Agriculture.

Introduction

Accelerating the growth of agriculture production is necessary not only to achieve an overall GDP target and meet the rising demand for food, but also to increase incomes of those, dependent on agriculture (Directorate of Economics and Statistics, 2013). In order to accelerate the production it is very much important that all required farm inputs should be timely made available.But the prices of improved seeds, fertilizers, improved farm machineries etc are increasing day by day. Whereas maximum of our farmers are either small or marginal and hence possess very low investment capacity. Hence, farmers are facing a huge problem due to lack of finance as well as its accessibility.Further, it has been seen that it is easier for one section of well off people to access credit in rural areas however, the poor section of people don't find the credit market very much accessible. Access to credit can provide the poor with productive capital and can help them in improving their socio-economic scenario. Lipton, 1976, said that sufficient productive credit is required for

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generation of adequate growth of production and for changing its consumption and distribution in favour of deficit producers. Microcredit can thus play an important role here. In simple words microcredit is the "Loan of very small amount" which can enable the farmers to raise their income levels and improve their living standard. It was initially launched for those individuals, who were involved in farming, poultry, cattle rearing, piggery, fishery etc that lack collateral, steady employment and a verifiable credit history.As per RBI master circular, 2008 "Microcredit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Microcredit Institutions are those, which provide these facilities.

The History

It was in 70's that the concept of microcredit got tremendous popularity. In the year 1976, Muhammad Yunus launched a research project to study the opportunity of designing a credit delivery system to provide banking services to targeted rural poor in Bangladesh through grameen banks. This grameen bank project later transformed into an independent bank. Healong with his organisation got noble prize in 2006 and the concept got international acceptance. The United Nation declared the year 2005 as the "International Year of Microcredit". After this success, microcredit started gaining importance in the mainstream finance industry.

Microcredit in India

During 1969, before nationalisation of banks, among the organised sectors, only co- operative banks were the main source of small loans but security against loan was mandatory. After nationalisation of banks, government has started many development schemes like Twenty Point Program, Antodaya Program etc. with the motive of raising the income status of poor people through micro credit. In order to implement thoseschemes, many branches were opened and simultaneously many other organizations like Regional Rural Banks, Deposit Insurance and Credit Guarantee Corporation (DICGC), National Bank for Rural and Agricultural Development (NABARD), Small Industrial Development Bank of India (SIDBI), Export Credit Guarantee Corporation (ECGC) and lastly Credit Guarantee Fund Trustfor Micro & Small Enterprises (CGTMSE) came into picture. To ensure the flow of funds to the poorer section and agricultural sector, RBIhas issued directivesthat priority sectors must get at least the 40% share of the commercial banks' total lending from which 16% should reach agricultural sector.

During the last four decades Government has infused a large amount of funds into rural capital market to support the formal financial sectors as well as to improve the accessibility of funds for small and marginal farmers. Donald, 1976 was of the view that additional formal credit can shift rural borrowing from informal sources to formal sectors and encourage borrowing for the use of modern technologies, improved inputs etc., to provide modern mechanism for income transfer and to increase in production and income for rural poor.

Impact of Microcrediton Empowerment and Income of People –Few reviews

Khandker (1998) conducted a research in Dhaka, Bangladesh. He tried to find out the impact of microcredit in eradication of poverty. He found that 21 per cent of Grameen Bank borrowers could fight out poverty in a small time span of 4.20 years andcould help 5 per cent of the households to come out of poverty line each year.

Puhazhendhi (2000) conducted a study in Tamil Nadu and found that there is a great impact of microcredit on empowerment and lifestyle of people. He did the study with SHG members.He found that literacy percentage increased to about 85% after the groups were linked with microfinance schemes. He also found that 27 percent of people had started sending their children to school and educated them upto School level after linkage with microcredit schemes. It was also revealed that the consumption of wheat and rice increased among the SHG members otherwise they were only consuming those occasionally.

Josily (2006) conducted a study in Dindigul district of Tamil Nadu and he observed a positive shift in income level of members after joining SHG and availing microfinance. The total per cent change of income was 45.99 per cent and was significant.

Nicholas (2007) studied on Microcredit utilization and its impact on household income: A comparative study of rural and urban areas in Iganga district, Uganda. He found that among all the strategies available, microcredit usage proved to affect the welfare of the poor people positively.

Suresh (2008) conducted a study in Tank Management Project Area of Northern Karnataka, for dairy enterprise. He found a rise in income status of people after availing microfinance. Microfinance helped them in better management of dairy enterprise, procurement of fodder for cattle and adoption of modern technology.

Teng et al. (2011) conducted a study in Cambodia and found that microcredit could enable people to improve the level of the education of their family members as well as could improve their income.

Muhammad (2012) conducted a studyin Gujranwala district of Pakistan to observe the impact of microcredit on agricultural development. He found clear evidences to state that microcredit had a great impact on agricultural development and production. It hadclearly enhanced seasonal income and improved the lifestyle of the credit borrowers.

Ibrahim and Siegfried (2013) conducted a study in Sudan and the found that, the people availed microcredit got profit of $168.13 compared to $ 155.28 for people without microcredit facility.

Ellis (2013) conducted study in Ghana and found that the mean capital before introduction of microcredit was $227.03 (with standard deviation 234.792) however, after the intervention, mean was $567.49 (with standard deviation 619.293). It was also found that the mean income before the introduction of the loan was $85.57 (with standard deviation 73.446) and the same was $290.65 (with standard deviation286.508) after the intervention.

Muhammad Alam (2014) conducted the research to study the impact of micro-credit on incomes from different jobs business, agriculture, etc from 2006to 2009. It was found that the mean of households' incomes improved consequently during the said period.

Present Scenario

In spiteof several provisions foravailing credit through formal credit sectors, our small and marginal farmers are still rely on and approach informal source of credits like money lender, relatives etc for required funds on high interest rate for production as well as consumption purposes. As a result, still only a small percentage of farmers are attached to formal credit system.

India has one of the largest microfinance sectors in the world and it is growing rapidly with government's initiative of total financial inclusion.More than a billion of poor people globally are without the access of formal financial services. Out of which some 200 million of people live in India. Theperformance of micro credit still needs to be more satisfactory either qualitatively or quantitatively. The money disbursed is neither adequate nor has shown promising results. Instead of being recycled, as it aimed to, the maximum portion got lost as bad loan.

As per the NABARD report 2016-17, only 31.4per cent of rural household and 22.4 % urban dwellers have access to finance from any source including informal.44% cash loans are still met from informal moneylenders.

The hindrances in the access of credit

Microfinance institutions find it very difficult to arrange financial backing for them. In addition to this MFIs are restricted to accept deposits also. They are supposed to comply with 10% margin cap on interest rate charged. Due to which these MFIs have converted to non-finance company and small finance bank so that they can raise large amount of fund. Microcredit industries being new to finance industry, charges high rate of interest as well as offer short repayment cycle. There is also a reality of low outreach due to lack of proper infrastructure and logistics. Microcredit industry work on providing loans without collateral security this has raised the risk of bad debts and failed the risk management system. Generally microfinance is disbursed to group where migration and dropouts became a big issue.

Above all the main reason is lack of financial literacy and awareness among people. Moreover, microcredit institutes are reluctant to come under legal framework and hence failed to win the faith of people.

Recommendations

Instead of complex and difficult micro credit distribution system a simplified Single Window System should be set up to look after the entire process starting from record keeping, loan processing as well as repayment. Moreover innovative and upgraded financial products or personalised products according to the need and interest of the borrower should be launched for low income borrowers with long term credit with relatively long repayment will make the product more customer friendly. Government should invest in avenues for creation of awareness among people regarding microfinance as well as benefits of microcredit and should also ensure disbursement of loans and grants to small entrepreneurs.

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