



THE EFFECTIVENESS OF MICRO CREDIT PROVIDED BY RGVN ON THE INCOME EARNING CAPACITY OF THE RURAL POOR

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ABSTRACT

The term Microfinance has gained widespread attention as an effective strategy, in the context of poverty alleviation, across the Nations. Microfinance institutions are serving as the platform, specially for financially excluded, to have an access to financial services. Poverty alleviation through micro credit is one of the important functions of these MFIs. In last few decades our country has witnessed the growth in MFIs sector.

Rashtriya Gramin Vikas Nidhi (RGVN), which was established in the year 1990 as a non-profit society, which vision is to improve the quality of life of the poor, under the sponsorship of Industrial Finance Corporation of India (IFCI), the Industrial Development Bank of India (IDBI) and the National Bank for Agriculture and Rural Development (NABARD). Through its Credit and Savings Programme, RGVN started to provide credit and other financial services to the people who have been excluded from the formal banking sector, especially women for enhancement of their livelihood generation capabilities. At present it is operational in two states of India, Assam and Orissa.

In this present study an effort is made to examine the uses of microcredit, provided by RGVN, in enhancing the livelihood opportunities of the poor borrowers. The study specific area is the Gohpur Subdivision of Biswanath District.

KEYWORDS : Micro credit, MFIs, Rural poor, enhancement of livelihood

INTRODUCTION:

About 69 percent of the total population of our nation still lives in the rural areas and 25 percent of this population is living below poverty line. Since independence, the Government of India has devised a number of strategies to address the issue of widespread poverty. One of such strategies is to provide economic support to the rural people, which in turn lead to the creation of microfinance institutions. Microfinance and rural development together have a reasonable impact on the elevating the standard living of the poor people.

RGVN (North East) Microfinance Ltd is a microfinance institution operating in the Northeast India region. This part of the country is one of its least developed areas, and the most financially excluded. In 1995, the NGO Rashtriya Gramin Vikas Nidhi (RGVN) established a Credit and Savings Program (CSP) in collaboration with SIDBI. RGVN (NE) was established as a NBFC in August 2010. The organization was given the NBFC-MFI license in August 2014. Headquartered in Guwahati, Assam, RGVN (NE) operates through a network of 101 branches spread across five northern eastern states such as Assam, Meghalaya, Nagaland, Sikkim and Arunachal Pradesh.

The small finance bank, in furtherance of the objectives for which it is set up, shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganized sector entities. It can also undertake other non-risk sharing simple financial services activities, not requiring any commitment of own fund, such as distribution of mutual fund units, insurance products, pension products, etc.

Its core products include loans for income generating activities provided through the medium of joint groups, larger individual loans for micro businesses and subsidized loans for welfare purposes such as health and sanitation. All of RGVN's clients are women. In addition to the loans, RGVN also offers insurance. RGVN (NE) follows both Joint Liability Group and SHG model; currently 51 branches follow the SHG methodology.

RATIONAL OF THE STUDY:

The rural household in the developing world are involved in a variety of economic activities, as a part of complex livelihood

strategies. These are undertaken with the primary objective of enhancing the income level. But the execution of these activities required investment, which is still remain an unachievable dream to most of the rural masses due to their low income.

Without the required investment the economic activities could not be executed. And here the Micro Finance Institutions have been performing a crucial role in providing the means of investment through micro loans. The loan thus obtained is employed by an individual in the execution of the economic activities. In this study the effectiveness of various economic activities undertaken by the beneficiaries of micro loans of the rural areas of the selected study area are trying to be investigated with a view to assess their impact on the income generation.

REVIEW OF LITERATURE

1. Sane, R. and Thomas, S. (2013)¹ focus on the appropriate regulatory stance towards microfinance and analyses the puzzles of financial regulation in this field from first principles and argues that mainstream mechanisms of consumer protection and micro-prudential regulation need to be modified. The research findings suggest regulatory strategies that need to be adopted for dealing with micro credit and financial distribution should focus on the poor.

2. Nasir, S (2013)² tries to outline the prevailing condition of the microfinance in india in the light of its emergence till now and its aim is to provide a cost effective mechanism for providing financial services to the poor. The research finding discovers the prevailing gap in functioning of MFIs such as practices in credit delivery, lack of product diversification, customer overlapping and with practicable suggestions to overcome the issues and challenges associated with microfinance in India.

3. Vichore, S. (2012) discuss how the giant microfinance company (SKS) after taking a transformation root to commercialization has focused only on the promoters profit and not the investors and the study also focuses on understanding what caused microfinance in India to trip. For analyze of MFI, the study of M-CRIL, NABARD and relevant publication on the development of related area in the country is been studied. The findings that postulate the idea there the MFIs to ensure more measured growth and better control

system. It also requires more informed investor behavior to ensure that capital flows to socially responsible institutions in support of long term economic benefits of financial inclusion rather than in pursuit of short term financial gains.

OBJECTIVE OF THE STUDY:

a) To assess the effectiveness of the economic activities in generation of income undertaken by beneficiaries.

RESEARCH METHODOLOGY :

This particular study is based on both primary and secondary data. The research design is devised by keeping in mind about the objective and other related factors like availability of time.

Exploratory case study methodology has followed For the purpose of this study. Seven beneficiaries under RGVN of Gohpur Subdivision of Biswanath District have selected by adopting convenient sampling techniques.

The primary data were collected through personal interview of the selected beneficiaries. In addition to this, secondary data were collected from seminar papers, news articles etc. related to the subject matter of this study.

LIMITATIONS OF THE STUDY:

In this paper, the capital structure of the identified activities undertaken by the respondents has studied considering only the borrowed capital. Investment of own fund is not taken into account. In addition the information regarding other expenditure necessary for starting the activities like investment in fixed assets other than investment in livestock, other expenditures relating to the activities are not taken into consideration. Emphasis is given only to study how the short term credit of small amount leads to generation of income.

The whole study is based on the averages in relation to number of products produced, purchase price, expenditure and sale price as mentioned by the respondents.

DATA PRESENTATION AND ANALYSIS:

All of the surveyed respondents are women from BPL category

Respondent No. 1:

Educational qualification of the respondent= Hs Passed
Repayment period =2 years.

From RGVN, she has been granted with a loan amount of Rs 30000, 23% p.a. The beneficiary has to pay the EMI twice in a month. Activities in which the loan amount has used are:

- a) Purchase of a cow with calf at Rs 10000
- b) Rearing of 20 ducks @ Rs 250 each = Rs 5000
- c) Annual expenditure incurred in relation to poultry farming = Rs 8000

Thus, in the above mentioned activities 70% of the total loan amount has used. And remaining 30% are expended for the personal use.

Monthly income from selling of milk = Rs 40*30 days = Rs 1200

Therefore, yearly income earned by selling of milk = Rs 1200*8 months = Rs 9600
From sale of duck (yearly) = 50*Rs 350 = Rs 17500

Total annual income of the respondent =Rs 17500+Rs 9600=Rs 27100

Less: purchase price of cow and calf	= Rs10000
Less: purchase price of duck	= Rs5000

Less: amount of loan expended for personal needs	=Rs7000
Less: Annual interest on loan is	= Rs 3450
Less: annual expenditure relating to poultry farming	=Rs 8000
Therefore net loss =	=Rs 6350

Respondent No. 2 :

Educational qualification = H.S Passed
Repayment period =2 years.

From RGVN, she has been granted with a loan amount of Rs 30000, 23% p.a. The beneficiary has to pay the EMI twice in a month. Activity in which the loan amount has used:

a) The loan amount has taken for up gradation of their fishery which is actually maintained by her husband.

Monthly income earned from fishery before upgradation = Rs 6000

Therefore yearly income from fishery is =Rs72000
Monthly expenses in relation to fishery = Rs 2500

Therefore yearly expenses in relation to fishery is =Rs 30000
Less : amount spend for the upgradation in the fishery in the current year =Rs 30000

Less: Annual payment of loan amount with interest is = Rs 3450
Therefore net income =Rs 8550

[Note : The upgradation of the fishery will not lead to any increase in the income level for the current year.]

Respondent No. 3 :

Educational qualification of the respondent = H.S Passed
Repayment period =2 years.

From RGVN, she has been granted with a loan amount of Rs 30000, 23% p.a. The beneficiary has to pay the EMI twice in a month. Activity in which the loan amount has used:

a) The loan amount has used in repairing of their passenger 3 wheeler

Monthly income from the passenger 3 wheeler = Rs 9000
Yearly income from the passenger 3 wheeler = Rs 108000
Less : repairing cost =30000

Less : annual interest Rs =3450

Therefore net income from passenger 3 wheeler is =Rs 74550
Other misc expenditure which could have incurred are not taken into consideration for the purpose calculating the net annual income.

Respondent No. 4:

Educational qualification of the respondent = 10th standard
passed
Repayment period =2 years.

From RGVN, she has been granted with a loan amount of Rs 30000, 23% p.a. The beneficiary has to pay the EMI twice in a month. Activity in which the loan amount has used:

a) Loan amount invested for Peddy cultivation.
Per month income from sale of rice amount Rs 11000. They could sale the rice for 6 months in a year.

Therefore, their annual income from sale of rice is =Rs 66000. Less : expenditure incurred in relation to peddy cultivation =Rs 30000
Less : annual payment =Rs 3450

Therefore net income from sale of rice = Rs32550

Respondent No. 5 :

Educational qualification of the respondent = H.S Passed
Repayment period = 2 years.

From RGVN, she has been granted with a loan amount of Rs 30000, 23% p.a. The beneficiary has to pay the EMI twice in a month. Activities in which the loan amount has used are:

a) Pig farming:

The average cost price of a two months old piglet is = Rs 1750
For feeding of a 2 months old piglet = 2 kgs of food is required
The cost of each kg of food is Rs 8 (wholesale price)

Therefore the total cost of food = $1050 \text{ kgs} * 8 = \text{Rs } 8400/- = \text{Rs } 8400$

Therefore total cost of a year old pig is = $\text{Rs } 1750 + \text{Rs } 8400 = \text{Rs } 10150 = \text{Rs } 10000$ (rounded up)

She use to rear two pigs in a year. Therefore her total expenditure in rearing of two pigs is Rs 20,000. The sale price of a year old pig ranges between Rs 14,000 to Rs 17,000 The average sale price on this basis is = Rs 15500

Therefore the total sale price of 2 pigs is $\text{Rs } = 31000$
Total income made from sale of a year old pig is = $\text{Rs } 31000 - \text{Rs } 20000 = \text{Rs } 11000$ Less : annual interest is = $\text{Rs } 2300$
Therefore the net income from sale of 2 pigs = $\text{Rs } 8700$

Therefore she could earn an income of Rs 8700 in a year by selling of 2 pigs

b) Making of gale clothes:

On average she could make a total of 25 pieces of Gale in a month. The cost of making of each Gale is Rs 80 on an average. The sale price of each Gale is Rs. 140. Therefore the total sale proceeds in a month is 25 pcs @140 each = $\text{Rs } 3500$
Therefore the total sale proceeds in a year = $\text{Rs } 17500$

The total cost of production of 25 pieces of Gale is = $\text{Rs. } 2000$
Therefore total expenditure in making of Gale during these 5 months is $\text{Rs } 10,000$. Therefore total income per month = $\text{Rs } 17500 - \text{Rs } 10000 = \text{Rs } 7500$

Less : annual interest = $\text{Rs } 1150$

Total income during these 5 months is = $\text{Rs. } 6350$

Respondent No. 6:

Educational qualification = Graduate Repayment period = 2 years.

From RGVN, she has been granted with a loan amount of Rs 30000, 23% p.a. The beneficiary has to pay the EMI twice in a month. Activity in which the loan amount has used:

a) The loan amount has invested in their Bicycle repairing shop. Her husband maintains the business. Income from the shop is Rs 160 per day

Therefore, monthly income = $\text{Rs } 160 * 25 \text{ days} = \text{Rs } 4000$
Therefore total annual income from the shop is = $\text{Rs } 48000$
Less : annual payment = $\text{Rs } 18450$
Therefore Net income = $\text{Rs } 29550$

Respondent No. 7:

Educational qualification = H.S Passed Repayment period = 2 years.

From RGVN, she has been granted with a loan amount of Rs 30000, 23% p.a. The beneficiary has to pay the EMI twice in a month. Activity in which the loan amount has used:

a) The loan amount has invested in their stationery shop. Her husband maintains the business.

Income from the shop is Rs 140 per day

Therefore, monthly income = $\text{Rs } 140 * 25 \text{ days} = \text{Rs } 3500$
Therefore total annual income from the shop is $\text{Rs } 42000$

Amount paid as freight for bringing of the stationery products from the wholesaler = $\text{Rs } 400 \text{ pm}$

Therefore total annual expenditure on freight is = $\text{Rs } 4800$

Less: Annual payment of loan amount with interest is = $\text{Rs } 18450$

Therefore the net income is = $\text{Rs } 18750$

FINDINGS:

According to Tendulkar committee Report if the daily per capita expenditure of a person is below Rs 27 daily in rural areas then, the person will come under BPL category.

Therefore, if the monthly expenditure of a person living in the rural area is below = $\text{Rs } 27 * 30 = \text{Rs } 810$, then he is said to be in the BPL category. Like this if the annual expenditure of a person is below $(\text{Rs } 810 * 12) = \text{Rs } 9720$ then he is said to be living below the defined poverty line.

Comparing the above mentioned figures of monthly and annual income with the monthly and annual expenditure made by a person as per the definition of poverty, the following results are obtained:

In Relation To The Individual Beneficiary:

1) In relation to respondent no 1, the use of the obtained loan amount by herself led to a net loss of Rs 6350 in the very first year. Here 30 percent of the loan amount that had expended by herself for her personal needs could be a reason. But there is the creation of assets which will change her income level in the next year. The principal loan amount had assumed to be paid in the very first year in terms of purchase price of the livestock's she acquired, annual expenditure in relation to the poultry, amount of expenditure made for her personal needs and annual interest on loan amount.

Here the amount of loan served as the source of both fixed capital and working capital.

2) In relation to respondent no 2, the use of the obtained loan amount by herself led to a net profit of Rs 8550 in the very first year. But this amount of profit is not sufficient to improve her position from the BPL category, as this amount of annual profit is lower than the amount of annual expenditure (i.e Rs 9720) of an individual living in the rural area as per the above mentioned poverty line. But in the next year the annual income of the respondent will increase as a result of the current year's upgradation of the fishery.

Here the amount of loan served as the source of working capital only.

3) In relation to respondent no 3, the use of the obtained loan amount by herself led to a net profit of Rs 74450 in the very first year. This amount of profit is sufficient to improve her position from the BPL category, as this amount of annual profit higher than the amount of annual expenditure (i.e Rs 9720) of an individual living in the rural area as per the above mentioned poverty line.

Here the amount of loan served as the source of working capital only.

4) In relation to respondent no 4, the use of the obtained loan amount by herself led to a net profit of Rs 32550 in the very first year. This amount of profit is sufficient to improve her position

from the BPL category, as this amount of annual profit higher than the amount of annual expenditure (i.e Rs 9720) of an individual living in the rural area as per the above mentioned poverty line.

Here the amount of loan served as the source of working capital only.

5) In relation to respondent no 5, the use of the obtained loan amount by herself led to a net profit of Rs 15050 in the first year. This amount of profit is sufficient to improve her position from the BPL category. There is the creation of assets which will change her income level in the next year

Here the amount of loan served as the source of both fixed capital and working capital

6) In relation to respondent no 6, the use of the obtained loan amount by herself led to a net profit of Rs 29550 in the first year. This amount of profit is sufficient to improve her position from the BPL category, as this amount of annual profit higher than the amount of annual expenditure(i.e Rs 9720) of an individual living in the rural area as per the above mentioned poverty line.

Here the amount of loan served as the source of working capital only.

7) In relation to respondent no 7, the use of the obtained loan amount by herself led to a net profit of Rs 18750 in the first year. But this amount of profit is sufficient to improve her position from the BPL category.

Here the amount of loan served as the source of working capital only.

CONCLUSION:

The findings of this paper have showed that micro credit has some impact on enhancement of income at individual level. In most of the time the amount of micro credit fulfils only the requirement of working capital. But for the effective execution of an economic activity fixed capital is also required along with the working capital. Micro credit programme extend small loans to poor people for self employment projects to generate income and allow them to take care for their families. Quality of assets had improved due to availability of adequate credit and regular monitoring of assets by beneficiaries. Activity based beneficiaries were successful.

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