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Micro-Finance and Social Development Banking In India, With Special Reference To West Bengal: Alternative Or Complementary?

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ABSTRACT:

After bank nationalization, the social and developmental orientation of the banking sector has changed the direction of traditional rural credit network. To help the small and marginal farmers, bank introduced priority sector lending to boost agricultural development as well as to lessen the dependence of the rural poor on informal exploitative system. Cooperative banks, scheduled commercial banks and Regional Rural Banks (RRBs) in combined played important role to fulfill above purposes. But this banking system could not have covered a large section of people especially the weaker sections of the people. Besides, the system was not flexible enough to fulfill the social and developmental goals. Therefore, policy makers introduced microfinance as a replacement of social and developmental banking as an effective alternative to the earlier system. They claimed, it would have a more positive impact on socio-economic condition particularly on poverty alleviation. But, this study shows neither the microcredit system could have achieved the target to fulfill the vacuum created due to the withdrawal of the social and development banking as part of financial sector reforms nor it played role in terms of poverty alleviation as it happened in case of institutional banking.

Both primary and secondary sources of data and information have been used in this study. Primary data has been collected from the household survey of two villages. Regarding secondary data, different governmental publications, RBI publications, NABARD reports and books and journals have been consulted.

KEYWORDS: Micro-credit, social-development banking, rural, agriculture.

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INTRODUCTION

In 1991 when financial reforms had been initiated in India a reversal of policy hitherto followed in case of banking particularly rural banking occurred. Reversal in two ways, namely, the new policy was directed first of all towards minimizing the government in the financial sector. And, secondly, financing agriculture and rural development ceased to be treated as priority lending further. The emphasis of the earlier social banking was financing agriculture, and, displacing the informal sector from its powerful position in rural credit market. In the post reforms period policy makers started to encourage microcredit to fill up the gap left by the formal credit sector.

Chilumuri[1] opined that, Indian banking sector has emerged as one of the strongest drivers of India's Economic Growth. The non-viability and poor recovery performance of existing rural credit institutions, their failure to deal with income-poor borrowers in a sustainable way and inaccessibility of these institutions to the poor are stated to be major disadvantages of the existing system, Rangarajan[2] argued.Microcredit institutions are seen as being able to rectify these weaknesses.

Microcredit is the very small loans (microloans) to the unemployed, to the poor entrepreneurs and to others living in poverty and is not bankable [Wikipedia, 2007]. These individuals lack collaterals. Therefore, they are not worthy for getting bank credit. Microcredit is a part of microfinance, and includes savings. It was beginning in its modern incarnation as a pilot projects with ACCION and Md. Yunus in the mid-1970s. The United Nations declared 2005 the International Year of Microcredit.

According to Ramchandran and Swaminathan[3],rural households need credit for a variety of reasons. They borrow loans for consumption purposes as well as for investment purposes in agricultural activities. Agricultural activities in India are seasonal in nature. Households, particularly landless labourers and marginal farmers need credit to combat seasonal fluctuations for their livelihood and agricultural activities.

Women have become the focus of majority of the microcredit institutions. Women are believed to be more dedicated to the family affairs than the men do. Besides, giving responsibility to the women raises their empowerment, socio-economic status and entrepreneurship ability.

OBJECTIVE OF THE STUDY

The objective of the study is, first of all, to verify whether microcredit could have at all fulfilled the gap/ vacuum created due to the withdrawal of the public sector banking network, especially after the withdrawal of the subsidized priority sector lending. And secondly, to study the impact of microcredit on the socio-economic condition of the rural poor in India with special reference to West Bengal.

METHODOLOGY

To fulfill the above objective, as methodology, both secondary and primary sources of data had been used. Primary data collected from two villages of Birbhum district of West Bengal by household level survey with the help of a well-structured questionnaire. Selection of the district of Birbhum has been made keeping in mind the agrarian characteristics of the district and both the villages belong to same agro-climatic zone. Besides, the demographic composition is mixed in nature in terms of religion and cast. The sample has been chosen randomly from the population of the villages, whose primary source of income come from agriculture. In case of secondary data, books journals, bulletins, government reports etc. have been consulted.

MICROCREDIT IN INDIA

In India, the microfinance network has grown under two different system of patronage of state and non-statal agencies, Nair[4] pointed out.The SHG-linkage programme monitored by NABARD has the patronage of state and institutional banking system, in the one hand. A parallel system is working patronized by non-statal private agencies, on the other. Women and poor are the target population of both of the organizations.

Microcredit programmes, in India, are largely monitored by NABARD, the apex bank for agriculture and rural development established in 1982. But, in rest of the world, NGO (Non-Government Organizations) -organized microcredit network is followed. In Bangladesh, Grameen Bank model is followed.Under the model, NGOs form &develop Self-Help Groups (SHGs) and provide credit to them.

SHG-Bank Linkage Programme

In India, microfinance schemes operate within an organized financial structure where NABARD plays the key role in the promotion and development of the SHGs. It refinances at special rates the SHGs and other financial institutions also. The beginning was made with NABARD's pilot project in Karnataka (1986-87) of linking SHGs with formal banks mediating through NGOs,Nair said. The main objective of the SHG-Bank Linkage Programme is to provide thrift linked credit support to the members of SHGs. The target populations of the SHGs are the poor and the women. Poor households were without access to any formal credit institution. Equally they felt it difficult to save with the formal banks, Shylendra[5] observed.

But, the problemthat is crucial in this regard of the durability of microfinance systemso far, the poverty alleviation is a great concern. Infusions of cash in any area are bound to have some effect on the poverty-stricken borrowers. But this does not necessarily mean that the effect will be permanent. At the macro level, the impact of microfinance, however, has been very insignificant form.As on March 2002;SHG advances form only o.15 per cent of outstanding priority sector loans and 0.51 per cent of the accounts of scheduled commercial banks. Besides, Nair argued, there is no concrete evidence to prove that cash infusion through microcredit network automatically leads to livelihood diversification without the insistence of MFI for onlendingto productive purposes. Bhalla[6] noticed,"a serious problem with the SHGs isthat the members charge each other 24-36 % for intra-group lending. This leads to self-exploitationand reduces the potential employment opportunities".

Formation of Self-Help Groups

Satish[7] stated that, an SHG, both by definition and in practice is a group of individual members who come together for a common collective purpose. SHGs comprise individual members coming from more or less homogeneous group of population of the same village, community or even neighborhood, and know each other. The group pools their savings on a regular basis to form a collective fund. This fund is advanced as credit to the members within the group itself. Naturally, the basis of the SHG is mutual trust. Once the initial trust is established individual members can be advanced credit from the common fund.

Now, when the groups have taken an operating shape, then a SHG functions through a repeated rotation of their own savings converted to mutual credit. Then the SHG is introduced to the banks. This completes the cycle of SHG and microfinance. SHGs are inculcating banking habits in rural people, especially the women, Verma[8] explored.

INSTITUTIONAL BANKING AND RURAL CREDIT -BEFORE AND AFTER FINANCIAL SECTOR REFORMS

Keeping the objective of the study in mind when analyzing the role of microfinance in Indian economy let us see what role social and development banking played in Indian economy especially for agricultural development (more than half of the national population still depends on this sector) and poverty reduction. Rao[9] mentioned that, there are three sources of formal credit – cooperatives, scheduled commercial banks and regional rural banks.

Prior to the introduction of social and development banking, rural development was a neglected chapter in banking industries as such. Agriculture and rural development were not an important agenda in banking. But, after bank nationalization of 1969 and the introduction of social land development banking the approach and priority got a radical change in favour of hitherto neglected sector of agriculture and rural development. The post-nationalization era saw a sea-change in the banking scenario,Patel &Pithadia[10]claimed. According to Ramachandran and Swaminathan, "It recast completely the role of commercial banks in rural banking". A multi-institutional approach with commercial banks, Regional Rural Banks (RRBs) and cooperative institutions extended the operation in wide range of rural areas, hitherto unattended.

Providing financial services to rural household especially credit has been apriority agenda for the state since independence. Credit can help farmers to move on to a higher production level, Narayanan[11]opined.The report of the All India Rural Credit survey ,1950s was a landmark because it suggested the state to take part actively in the cooperatives.Sriram[12] commented that, the decade of 1970s following bank nationalization in 1969 was marked by directed lending. The target of 40 per cent was set by RBI for priority sector lending of which 18 per cent for agriculture alone. The priority sector comprises agriculture and small and medium scale enterprises.

After bank nationalization of 1969, the country witnessed a growth in the rural banking structure, which in terms of ‘both geographical spread and functional reach was unparallel in the financial history of the World’,Shetty[13] argued.

Now, let us see the expansion and coverage of social and development banking, before and after the bank reforms, in terms of some ‘indicators.

1. **Growth of bank offices:**

Table 1: The share of rural bank offices in total bank offices (%)

Years	1969	1972	1990	1998	2002
Share	17.6	36	58.2	50	47.8

Source: S.L.Shetty (1997), cited in Ramchandran&Swaminathan (2005).

From the table it is seen that after bank nationalization the share of rural bank offices has been increased considerably. But,Ramchandran& Swaminathan showed, after the initiation of reforms process 2,723 bank offices were closed between March 1994 and March 2000. According to Shetty, economic reforms may affect other future policies of rural development even SHG-bank linkageprogramme.

2. **Credit and deposit ratio:**

After bank nationalization there was an expansion both in deposit and credit in the rural branches and overall banking sector. The share of ‘rural deposits’ doubled in 1970s, from 6.5 per cent in 1972 to 12.6 per cent in 1980 reaching peak at 1990-91 with 15.5 per cent rural deposits in aggregate deposits. It fell in 1990s.

It was a same picture in case of credit outstanding. It increased after nationalization and continued in 1980s until it started declining in the 1980s. It declined from 15 per cent in 1987 and 1988 to 11.2 per cent in March 1990 and 10.2 per cent in 2002, Ramchandran and Swaminathan mentioned in their writing.

As a natural fall-out of the above trend in deposit and credit scenario, credit-deposit ratio which is an important indicator of the role of banking sector plays for rural development fell in the rural branches. It rose after 1969, and reached its peak in 1984 and remained above 60 per cent up to 1991. In 1990s, it fell sharply.

3. Share of 'priority sector' in gross credit outstanding of scheduled commercial banks

Table 2: Share of 'priority sector' in gross credit outstanding of all scheduled commercial banks, India, 1969 to 1999 (per cent)

Years	1969	1984	1986	1990	1991	1996	2001
Share	14.0	38.1	41.0	40.7	37.7	32.8	34.4

Source. S.L. Shetty (1997), cited in Ramchandran and Swaminathan, (2005)

The flow of credit to the 'priority sector' i.e. to agriculture and small and medium industries expanded from 1969 and onwards. It reached the target of 40 per cent set by the RBI, and more than achieved in1986 and 1988. It started to decline after that, and touching the target in 1991 it continued to fail after that.

Ramchandran & Swaminathan further showed that, it again achieved the target of 40 per cent, but that is due the redefinition of 'priority sector' which included advances to newly created infrastructure funds, to non-banking financial companies and to food-processing industries, and even multinationals like Pepsi, Kellogg's, Hindustan Lever, ConAgra etc.

4. Supply of bank credit to the rural poor:

Commercial banks were directed by RBI to provide credit to the underprivileged section of the rural population. Under priority sector lending, 'weaker sections' were defined as small and marginal farmers, agricultural labourers, and scheduled caste and scheduled tribe households. Commercial banks failed to meet 10 per cent fixed for this category after 1991. Rather the gap widened over the years, Chavan[14] claimed.

Table 3: Commercial bank credit to 'weaker sections in India, 1991-2002(Rs. crore at current prices)

Years	Public Sector Bank	% of Net Bank Credit	Private Banks	% of Net Bank Credit	Total banks	% of all credits
1991	10260	9.7	246	5.2	10506	9.5
1996	15579	8.4	381	2.1	15960	7.8
2001	24899	7.2	959	1.7	25858	6.4
2006	28974	7.3	1142	1.8	30116	6.5

Source: RBI, Statistical Tables Relating to Banks in India, various issues, RBI (1997, 2002c); cited in Pallavi Chavan (2005).

5. Integrated Rural Development Programme

Policy-makers identified a host of problems in rural financial market, and an attempt was made to resolve those problems through targeting, providing subsidies and applying governmental control, Satish[15] said. Mookherjee and Lahiri[16] are of the opinion that, priority lending initiative aims to make credit available to farmers at relatively low interest rates.

The Integrated Rural Development Programme launched in the late seventies of the last century in India covered a considerable section of the rural poor. As a result of this program, first of all, access to the institutional banking for the poorer people could have been materialized to a large extent. Small and marginal farmers could have undertaken agricultural activities in their small and tiny farms and earned their livelihood. Agricultural production in India increased manifold in the 1980s.The small and marginal farmers could have also availed a part of the high cost new technology. Though the complain of non-repayment of loan is an issue cannot be ignored totally.

Table 4: Number of beneficiaries and credit disbursed under IRDP, India1980-98(Beneficiaries in lakhs, amount in Rs. crore at constant prices)

Years	No. of	Index of no. of Beneficiaries	Credit Disbursed	Index of Credit Disbursed
1980	27	77.1	893	32.0
1982	35	100.0	2789	100.0
1986	37	105.0	2818	101.0
1987	42	120.0	3142	112.7
1990	29	82.9	2527	90.6
1995	21	60.0	1430	51.3
1998	13	37.1	1112	39.9

Source: CSO (2002), RBI, Report on Trend and Progress of Banking in India, various issues, cited in Pallavi Chavan (2005).

Indexes above mentioned are (1982=100)

Note: Credit figures have been deflated using GDP deflated with the base year of 1993-94.

The credit advances from commercial banks, showed in the above Table, declined during 1990s, after a steady upward rising trend in 1980s. It reached a peak in1987at Rs.3, 142crores, and declined thereafter to Rs.1, 112crores in 1998. After this, the scheme was closed down. There was also a decline in the number of beneficiaries under the scheme in the 1990s.

6. Direct Advances of commercial banks to marginal, small and allCultivators, in India

Table 5: Direct advances (short term and medium term) of commercial banks to marginal, small and all cultivators, in India, 1980-81 to 1999-2000(Rs. crore at current prices)

Category	1980-81	1990-91	1999-2000
Marginal cultivators (Up to 2.5 acres)	252 (24.9)	1181 (30.2)	3338 (23.8)
Small cultivators (2.5 to 5.0)	168 (16.6)	952 (24.3)	3467 (20.7)
Marginal and Small	420 (41.5)	2133 (54.5)	6805 (48.5)
All cultivators	1014 (100.0)	3915 (100.0)	14014 (100.0)

Source: RBIReport on Currency and Finance, various issues, cited in Pallavi Chavan (2005).

Agricultural credit to marginal and small farmers also declined after the initiation of reforms process in the bank sector. Decline in the share of the marginal farmers is sharper than the decline in case of the small farmers, Chavan observed on the basis of RBI report.

Therefore, in terms of all the indicators discussed above it can be concluded-

a. After bank nationalization of 1969, the introduction of social and development banking contributed a lot to expand its geographical area of functioning in a wider scale in terms of share of population it covered, and both share of deposit creation and credit advancement.
b. Through directed lending with the target set by the RBI it included agriculture and small and medium industries uncovered before in the bank functioning in modern India.
c. The introduction of a new concept of ‘priority lending’ with subsidy in its composition has helped through different wage-employment and self-employment scheme to create employment and generate income.
d. The banks turned to be very trustworthy institutionsto the people and became a symbol of national pride. Even the poorer people could have accessed banking services through the social and development banking.
e. After the introduction of reforms in the financial sector, all the indicators mentioned above have been in a declining trend with different rates.
f. The whole banking sector became market-driven profit-oriented concern losing its social character.

But, to agree with the above conclusion regarding formal banking sectors in India does not mean that the system was flawless. The very first and foremost criticism against social and development banking is it could not cover all the population of the country. Besides, a considerable part of the weaker sections of population is still out of the coverage of formal banking. The advancement of agricultural credit has not been "inclusive" in the true sense of the term as the share of the marginal and small farmers in the agricultural credits disbursed has declined. Even they are not aware of the benefit of this interventionist system. They feel that banks are not for the poor people, rather for the rich people only.

Naturally, the question arises what are the remedies to make social and development banking more fruitful and pro-poor. The answer to this question prescribed by neo-liberal thinkers/policy makers is microfinance. This is a market –oriented philosophical manifestation of financial policy. In the liberalizing world view, the policy-makers claim, deregulation and withdrawal of subsidies in the agricultural sector are the scientific way to achieve the desired price movements, Sen[17]categorically stated that. They are of the opinion that social justice is a matter should not be attempted to be tackled by the financial instruments. Rather, it is the fiscal instrument that can be used to solve it [Rangarajan,1996]. Financial sector should function in a market-driven structure. In the name of externalization of the cost of banking and minimizing the non-performing assets (NPA) of the social banking framework microfinance is the only viable alternative prescribed by the policy makers in India prescribed microfinance to be the right instrument and can play role of an alternative to the earlier social and developmental banking.

Performance of microcredit in India

There are no comprehensive estimates available of the outreach of the microfinance sector to the poor, from the available estimates it is projected that 80 per cent of the clients are without any formal savings, and 91 per cent without formal credit. Nearly 77 per cent of the clients are in the rural sector. The SHGs linked to bank has increased from just 500 in the early 1990s to over 8, 00,000 by 2004, above 80 lakhs households,Basu& Srivastava[18] showed.

According to Chavan and Birajdar[19], microfinance has spread in India in an impressive pace. The number of SHGs increased in India from637 in1994 to 22.4 lakh by 2006. Simultaneously, bank credit to SHGs has increased in a considerable magnitude. This includes commercial banks, Regional Rural Banks and cooperative banks.

But, in spite of its expansion, there are observations made about the scale and spread of microfinance in India, Chavan and Birajdar cited in their article. First of all, microfinance remains a minuscule portion of total bank credit. To understand the small scale of finance to SHGs is to mention that total cumulative credit disbursed through SHGs programme right from its inception in 1992 to 2006 by commercial banks, RRBs and cooperative banks formed only 6 per cent of total agricultural credit disbursed in the year of 2005-06 by these institutions together. Let us see their observations.

Table6: Cumulative number and amount of credit to SHGs in India(Amount in Rs. lakh)

Year	Cumulative number of SHGs	Cumulative amount of bank credit
1994	637	80
2006	22385655	113975400

Source: NABARD (2006), Nanda (1995), cited in Chavan and Birajdar (2009)

Note: Figures for 1994 pertain only to 11 States, where the pilot project of SHG-bank linkage was implemented.

Table 7: Cumulative number of and amount of credit to SHGs, by agency(Amount in Rs. crore)

Agency	Cumulative number of SHGs	Cumulative amount of credit
Commercial banks	1188040 (53.1)	698745 (61.3)
1.1 Public sector bank	1141570 (51.0)	643968 (56.5)
1.2 Private sector banks	46470 (2.1)	54777 (4.8)
2. Regional Rural Banks	740024 (33.1)	332215 (29.1)
3. Cooperative banks	310501 (13.9)	108795 (9.5)
All banks	2238565 (100)	1139754 (100)

Source: NABARD (2006), cited in Chavan and Birajdar (2009)

Note: Figures in brackets indicate percentage in total.

Secondly, credit to SHGs had an extremely small share in total credit and total loan accounts. There is a falling tendency in these shares during the period from 2002 to 2007 (Table: 3).

Table 8: Percentage share of credit outstanding to SHGs in total credit outstanding of scheduled commercial banks (including RRBs)

Year	Amount of Credit outstanding to SHGs (in Rs. crore)	Total credit outstanding to SHGs (in Rs. crore)	Number of loan accounts for SHGs	Total loan accounts
2002	41321 (1.8)	2258529	290904 (0.5)	483280
2007	81156 (0.8)	10094629	53034408 (0.3)	166820470

Source: Basic Statistical Returns, various issues.

Notes: 1. Figures in brackets indicate percentage share of accounts/amount toSHGs in total accounts/amount.

The third point is that, there is a significant concentration in favour of southern region of the country. More than half of the SHGs were located in this region and about three fourth of the bank credit were given to SHGs located in this region (Table:4).

Table 9: Cumulative number of and amount of bank credit to SHGs, by Regions, 2006

Region	Cumulative number of SHGs	Cumulative amount of bank credit
Northern region	133097 (5.9)	39859 (3.5)
North-Eastern Region	625171 (2.8)	6570 (1.5)
Eastern Region	394351 (17.8)	93542 (8.2)
Central Region	267915 (12.0)	80501 (7.1)
Western Region	166254 (7.4)	52514 (4.6)
Southern Region	1214491 (54.3)	856759 (75.2)
India	22385665 (100.0)	1139754 (100.0)

Source: NABARD (2006). Cited in, Chavan and Birajdar, 2009

Notes: 1. Figures in brackets indicate percentage share in total for India

The region-wise classification of States follows from the NABARD publication

Though southern region has greater concentration of microfinance possibly because there exists a well- developed banking infrastructure in that region but it further reinforces the existing regional inequality between regions in the development of infrastructure, Chavan &Birajdar pointed out.

Finally, as microfinance is claimed to be essentially driven towards including the poorer section of the population into the bankingnetwork. The concentration of microfinance is highest in the southern region and smallest in the central region. As an SHG normally is made of 15 members and 60 percent of SHGs have members from families belonging to the Below Poverty Line (BPL) category (NCAER, 2008), one- third of the population belonging to the southern region is covered by SHGs.

Table 10: Cumulative number of bank credit to SHGs per person below poverty line, 2005

Region	Cumulative no. of SHGs per thousand persons below poverty line	Cumulative no. of SHGs per person below poverty line (Rs.' 000)
Northern region	8	24
North-Eastern region	10	28
Eastern region	5	13
Central region	3	10
Western region	5	16
Southern region	36	252

Note: Figure for population below poverty line is taken from NSSO for the year 2004-05.
Source: NABARD (2006), GOI (2007), cited in Chavan and Birajdar (2009).

On the basis of the above tables and analysis using secondary data, there are some findings let us mention in the following. First, microfinance in spite of its expansion has remained a minuscule of India. After a decade and half since its inception in the form of SHG-Bank linkage programme, total credit advanced to SHGs constituted less than one percent of the total credit advanced by the scheduled commercial banks. Secondly, the data show that the percentage share of bank credit accounts held by SHGs in India has a falling trend. Thirdly, the spread of micro finance has considerable regional bias in favour of Southern region.

MICROCREDIT IN WEST BENGAL

West Bengal a state with high population density compared to the other states and national average. It has passed through a series of land- reforms measures, and has decentralized its state power up to a considerable extent through a three-tier panchayat system. 'Operation Barga' has given the ultimate tiller the right to till the land and thus a social security. Of the ceiling surplus land acquired and distributed among the landless or marginal farmers (known as 'Patta') in India, nearly 40 per cent of it is only from West Bengal. The pro-poor state intervention has had a positive impact on the rural poor, Bhattacharyya[20]claimed from his primary level observation. These 'Bargas' and 'Pattas' entitlement acted as the collaterals for bank loans. As a result, a huge amount of subsidized credit has been channelized to the poor villagers in West Bengal,Bhattacharyya[21]observed.

The rural landless labourers and the marginal farmers, having land through the land reforms process, need credit as working capital for agricultural activities. In the late seventies and early eighties of the last century, due to the introduction of priority sector lending with subsidy, the weaker sections of rural India got credit to an extent not refutable. The scheme like IRDP (Integrated Rural Development Programme) was initiated, a scheme for the creation of permanent income bearing assets among the poor through the allocation of subsidized credit. But, agricultural loans to this section were not adequate in volume. Besides, with the decline in the priority sector lending and subsidized credit inflows after the bank reforms the erstwhile process of rural credit expansion programme was jeopardized to a major extent. Informal sector, especially input traders, are still very important source of credit, Dev & Rajeev[22] noticed. Moreover, in recent years, agriculture is losing its attraction and has turned out to be a non-profiteering sector. The cost of production is increasing, in the one hand, and the prices of the agricultural produce are decreasing, on the other. Naturally, income and mandays creation has been slashed down in the rural sector. Population in the unorganized sector has been struggling for employment which was shrinking day by day in India, and West Bengal is no exception.To fill-up this gap between the obligatory responsibility and achievement, the then Left Front Government in West Bengal has undertaken the microfinance arrangement, in a full-fledged manner in spite of its market-oriented character, Bhattacharyya argued.

Stage of microfinance movement in West Bengal

According to Roy et all[23], the SHG movement in West Bengal is still at a nascent stage with limited institutional development. Even though West Bengal has the second number of SHGs (11% of total SHGs in India), but it is far behind Andhra Pradesh (35% of total SHGs in the country). The average loan size is one of the lowest in the country at Rs. 3,450 per member and Rs. 43,000 per group.

The government of West Bengal has taken an active part in the SHG-bank linkage programme from its very inception in the state. The programme has been covered under the SGSY scheme comprising below poverty line (BPL) households. These SHGs get fund from the District Rural Development Authorities of the state government and banks with cash credit facility. The Swarnajayanti Gram Swarojgar Yojana (SGSY) was launched as an integrated programme for self-employment of the poor with effect from April 1, 1999 [wiki 2007].

MFI in West Bengal

There are NGO-based microfinance institutions (MFIs) like Bandhan, Arohan, Sahara Utsarga Welfare Society (SUWS)and SaharaUttarayan, Vllage Financial Services Pvt. Ltd. (VFSPL) etc. in West Bengal. Sometimes, clients like MFI loans because the repayment mode is fixed weekly installment.

Share of Modern Agencies in Credit Outstanding: The SHG-Bank linkage programme (SHG-BLP) with policy support from Reserve Bank of India and NABARD has completed 25 years of its activities. Apart from that,there has been emergence of Microfinance Institutions. But, from the following Table it will be seen that, in West Bengal, still 49.3 per cent of the total credit outstanding comes from the informal agencies.

Table 11: Shares of Traditional and Modern Institutional Agencies in Total Credit Outstanding

Credit Agency	Formal Agencies			Informal Agencies
	Traditional	Modern	Others	
All India	51.1	4.2	0.7	44.0
West Bengal	38.7	10.8	1.2	49.3
Telangana	24.0	7.3	0.4	68.3
Tamil Nadu	54.9	4.1	2.5	38.5
Odisha	52.3	4.7	0.4	42.6
Karnataka	43.5	8.3	0.1	49.6
Andhra Pradesh	33.7	6.8	8.3	49.7

Source: Compiled from NSS Report No. 577;Household Indebtedness in India, cited in NABARD Repot (2016-17).

Therefore, from information put forward by the government agency like NABARD, entrusted for rural development, and, apex authority for organizing and monitoring SHG-Bank linkage programme, it can be said that SHG-Bank linkage programme of microfinance has not been successful to such an extent as to cover people, particularly rural people to bring out from the dependence on the exploitative informal sector of credit. Therefore, the tall claims of the neo liberal policy-makers about the effectiveness of microfinance both about its coverage and being alternativeness of social and development banking has become a myth rather than a reality.

Village level primary survey findings

I have undertaken village level primary survey in two villages in Birbhum district of West Bengal. One is Shitalgram of Nalhati-2 Block, and the other one is Lalitakundu of Rampurhat-2 Block. From each village 100 households have been surveyed through structured questionnaire containing both quantitative and qualitative information. When analyzing the collected data about the sectoral distribution of the credit/loan and functioning of the SHGs of both the villages following information have been derived.

Out of total 100 households of the village Shitalgram 30 households had received bank loans (from Syndicate bank, situated in the village) and 55 households have received informal loans. Of the 55 loanee from the informal sector 14 households have taken loan from the landlords, 26 from professional money lenders, 10 from traders, and 4 from relatives and friends and other sources. In case of the village Lalitakundu, out of 100 households only 3 of them have received bank loans and 85 of them have taken informal sector loans. Of this 85 loanee householdsonly 1 household has taken loan from the landlords, 40 from professional money lenders, 55 from traders, and 6 households from the sources of relatives and friends and other sources. In Shitalgram, out of total 100households 42 households are members of self-help groups. But, in Lalitakundu, out of 100 households surveyed, only 32 are members of self-help groups.

Table 12: Loans taken by households from different sources

Village households	Total number of	Banks (formal sector)	Informal sector	SHG
Shitalgram	100	33	55	42
Lalitakundu	100	3	85	25

Source: Primary level village survey, 2014-15

Both, in Shitalgram and Lalitakundu, professional money lenders and traders are predominant as sources of credit either in money terms or in terms of kind or both. Sometimes, households take loan both from professional money lenders and traders, normally for different purposes. People take loan from money lenders to meet social obligations like marriage of their daughters, house building or repairing, medical purposes etc. They take consumer goods as well as inputs like fertilize, pesticide etc. from traders with the conventional norms that when (normally after harvest) they would accrue some money they would pay the unpaid amount or at least a part of it, obviously with the consent of the village traders. The basis of these transactions is the mutual personal acquaintance. Relatives and friends of the poor villagers are normally not so much solvent that the households approach them for loan or reversely they offer loan to the households we are discussing about.

Significantly, taking loan from landowners is not a dominant picture in the village level in West Bengal. This may be due to the predominantly temporary nature of sharecropping in agrarian economy of the state, or, the tenant preferably does not want to enter into the commitment of working the same owner in other season of the year because there are alternative sources of income like MGNREA, non-agricultural job such as construction worker or working in big cities etc.

Table 13: Members of SHGs taking traditional informal sector loans

Village	Number of SHG members	Out of them taking informal loan
Shitalgram	42	28
Lalitakundu	32	25

Source: Primary level village survey, 2014-15.

From the above Table it is seen that even the SHG members are taking informal sector loans for their survival. This implies that SHG-Bank Linkage Programme cannot make a member household economically independent enough that he/she does not have to depend on informal sector financially. Besides, where majority of the households surveyed depend on informal sector loan, number of households having membership of SHGs are less than half (42 in case of Shitalgram and 32 in case of Lalitakundu).

Therefore, from the above analysis of data from primary village level survey it is beyond doubt that the informal sector has very wide and strong presence still in the agrarian economy of West Bengal. Micro credit movement (as it is called) could not have replaced the presence of traditional informal sector agents like professional money lenders and traders in the rural credit market in West Bengal. The role it has played is microscopic compared to the requirement and possibilities in the state. Ultimately, it is the poor people who suffer.

Purpose-wise the following picture has been noticed. In case of Shitalgram, of the 55 loanee households from the informal sector number of loan taken for consumption purposes is 33 and for social (and/or ritual) purposes is 11. Only 9 households havetaken loan for investment purposes, mainly in agriculture, and 2 for other purposes. In the other village, i. e. in Lalitakundu, out of total 85 number of households taken informal loans, 64 of them have taken for consumption puposes, 10 of them to meet social obligation. Again, only 9 households have taken loans for investment purposes, and 2 for other purposes.

SHG scenario in West Bengal in the grass-root level

From the village survey it is found that out of 100 households from each village 42 households and 34 households respectively from the villages Shitalgram and Lalitakundu are the members of SHGs. The members of SHGs have deposited their money with their SHGs, and against those deposits have taken loans. But, almost all the groups or members baring a few have not taken initiative to produce any tangible product to sell to make themselves truly self-reliant. Majority of the members have utilized their loan in different purposes like house-building, daughter's marriage and other consumption purposes. Avery few members have purchased calves. Majority of the SHGs are either non-functioning or already wiped away. A few of them are in a moribund stage. Therefore, from the primary survey of households of the two villages of two different Blocks of Birbhum district, the tall and much campaigned claims of the policy makers regarding the strength of microfinance have been falsified. Perhaps people do not think microfinance to be an instrument of making themselves free from the bondage of poverty. They treat microcredit as an instrument of earning immediate short-term money. There is neither any repayment pressure from the part of the monitors of the programmeeven nor are the members motivated for production.

CONCLUSION

From both the secondary data and the primary field survey information, it can be concluded that the poor recovery logic of social and development banking is not tenable for the introduction of microcredit in West Bengal as well as in India. Besides, the volume of credit in SHG-bank linkage programme is so small that the members who take loan from their SHGs do not attempt to take any initiative for organizing any productive unit. The SHGs in the rural areas are framed by the client members not with the target of lifting them above poverty-line. Naturally, impression that is created isthat the policy of micro credit extension through SHG-Bank Linkage Programme is just to externalize and privatize the responsibility of institutional banking to the market-driven microfinance network whatever may be the outcome in terms of poverty eradication and/or creation of livelihood earning.

Therefore, microfinance is not an effective substitute to the social and development banking. At the most it can be a remote complementary tool to the bank credit system to reach to the poor without its convincing role as a poverty alleviation tool.

POLICY IMPLICATION

As a policy implication, it can be said, social and development banking should be restored with some correctional measures. Defaulters of loan particularly those evade large volume of loan repayment should be dealt with a strict banking and legal provisions. Priority sector lending should be reconstituted with redefining the definition of the priority sector such that only capital-poor people are covered in this head. Otherwise, financially solvent entrepreneurs or persons will get the opportunity to exploit the banking facilities and the whole purpose of priority lending will get jeopardized. Banking norms of getting loan should be more flexible and simpler especially for the weaker section of the population. It should be given attention that requirement of collateral does not pose any major hindrance for getting loan, particularly small loans. Incentives (like interest deduction or increase in number of installments of repayment of loan) should be attached with the clauses of the loan such that the debtor gets interested for timely or early repayment of the loan. If people are scared of approaching banks as they do not know the formalities to compile with and fill-up the loan forms, bank should employ/engage staff to assist people to successfully satisfy the formalities. Bank should create an atmosphere and culture so that people feel the institution as his/her own, and it is his/her responsibility to keep it alive, vibrant and efficient.

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