CREDIT EXPANSION PROGRAMMES FOR URBAN POOR : A LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

Dr. Dhiraj Sharma

Assistant Professor, School of Management Studies, Punjabi University, Patiala.

Jaskirat Singh

Senior Research Fellow, School of Management Studies, Punjabi University, Patiala.

Abstract

The literature available on credit and its expansion over the last two decades does not offer any clear thought about its impact and a real success in poverty relief in Northern India. The studies do not find clear evidence of reductions in poverty or any substantial improvements in living standards. Therefore, the awareness of credit expansion schemes is still a debatable issue and there is a need to make a suggestive model to evaluate and upgrade the functioning of the programme and removing the shortcomings and problems in poverty relief. A routine of studies has been conducted in the Southern portion of India, but there is a less number of written reports in Northern region. Credit Expansion Schemes, by far, is considered as a unique programme for serving and empowering the poor especially women. As the programme is different in structure and titles to help the poor, and then a lot of questions come to the mind. The purpose of this paper is to systematically blend the earlier work in this area, and to conceptualize and discuss the factors that influence the credit availability to urban needy poor women. This paper structurally reviews existing contributions and synthesizes these into a conceptual framework of credit expansion programmes for urban poor. Various schemes have been introduced by the government for the upliftment of the urban poor in India especially women as they suffer the most. But the literature available tells the other story which is mostly towards the negative side. We found that the schemes are available but the people for whom these are being introduced are not aware of these and

neither they are interested in raise their living reason being the paper work and heavy legal restraints which they people generally fear of.

Keywords: **Credit scheme, Micro Finance, credit expansion, Credit Expansion**

1. Introduction

Credit markets have, usually, played a central role in nourishing growth in nearly all countries, including advanced countries which today have fully developed capital markets. Credit markets perform the serious function of intermediation of funds between savers and investors and improves the allocative efficiency of resources. Banks, which are foremost players in the credit market, plays an important role in providing various financial services comprising hedging of risks. Credit markets also take on a central part in the monetary transmission mechanism.

The credit market has played a predominant part in meeting the funding needs of various sections of the economy. Credit institutions range from well-developed commercial banks and development finance institutions (DFIs) to localized small co-operatives. They offer a variety of credit facilities such as short-term working loans to corporates, medium and long-term loans for funding large infrastructure projects and retail loans for several purposes. Contrasting other segments of the financial market, the credit market is wide spread throughout the world and it affects the lives of all segments of the population.

In the recent times, a noteworthy development in credit markets all over the world has been the swift growth of credit availed of by the households, often exceeding that of corporate credit. While banks have been expanding their retail business through increased mortgage and credit card lending, households have been eager to finance their consumption and residential investment through bank credit. While the household credit market has already developed in the mature market economies (MME), it is only recently that the household credit market has started developing in emerging market economies (EME).

Expansion of credit, however, postures some risks, which range from pure credit risk to the risk of over-lending. While pure credit risk is the risk of loss due to non-payment by the borrower, even though adequate safeguards are taken at the time of loan origination, the risk of over-lending arises when banks extend loans without appropriate credit appraisal and due diligence on account of excessive optimism about future prospects. While pure credit risk may not be widespread and may normally not create systemic problems, over-lending is unsustainable and potentially destabilizing for the system. Regulators in all countries, while seeking to maintain adequate growth, guard against its adverse impact by instituting appropriate regulatory policies and solidification of prudential norms.

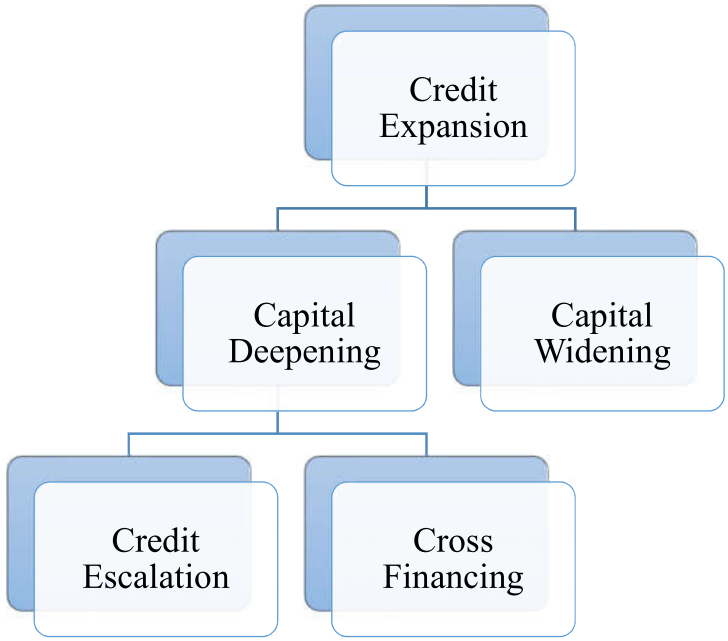
- **Credit Expansion for Poor**

The poor need credit for several uses beyond income-generating activities just like every other segment of the population. But urban schemes have been hesitant to go into this line of business directly, fearing that the poor cannot repay the loans. This fear of default has resulted in the creation of schemes that give loans only when the capital is used to generate repayment capacity straightaway. But the uses for loans borrowed by the urban poor vary widely and include more reasons than income generation. The Dynamic Group study found that credit taken in slums and small towns had been most often for health and social ceremonies such as unions and living accommodations.

Microcredit is an extension of very small loans to the impoverished borrowers who typically lack collateral security and a verifiable credit history. It is created not just to support entrepreneurship and alleviate poverty, but also to empower women and uplift communities. The signing of the Microcredit Summit declaration and other upcoming initiatives believes that microcredit funding for poor people will expand rapidly over the coming years.

This expansion in credit for poor will primarily take the form of ***Capital Widening***, *i.e. the creation of new institutions lending microcredit or existing institutions lending to new customers*. However, credit expansion also involves ***Capital Deepening***, *i.e. additional credit to current borrowers from existing institutions.* These two forms of credit expansion are interweaved. New credit institutions initially expand their credit through capital widening, while capital deepening becomes more significant over time. The various studies concentrated on two problems which are common to most credit schemes and are probably most important in a capital deepening process. *The first is whether the credit contributed towards increasing outstanding debt, referred to as* ***Credit Escalation***. *The second is whether additional borrowing was motivated by the need to service existing loans, referred to as* ***Cross-Financing.*** (Wiig 1997)

Figure 1: Credit Expansion & its Classification



Source: Wiig 1997

- **Credit Expansion for Economically Weaker Section in India**

The category of "weaker" sections as defined under Priority Sector Lending contains various socially and economically underprivileged sections. The share of credit to these sections charted a pattern that was similar to agriculture and MSE sectors. There was a continuous decline in the part of credit to weaker sections over the 1990s followed by a recovery that took the share of credit to these sections back to the level seen in the early 1990s (Figure 2).

Figure 2: Share of Credit to Weaker Section

Source: RBI, 2015 (Survey of Small Borrower Accounts)

Another way of looking at the credit distribution to the disadvantaged sections could be to separate out the loan accounts with comparatively small credit limits. For this purpose, the accounts with a credit limit of up to Rs.0.2 million, referred to as small borrowal account (SBAs), were distinctly analyzed. The stake of such accounts in total number of accounts was 79.7 per cent in 2013 reflecting the predominance of small-sized loans in the Indian banking system. But, these accounts together accounted for only 9.3 per cent of the total credit outstanding. The flip side of this observation was that only 20 per cent of the loan accounts accounted for more than 90 per cent of the total bank credit. More significantly, both in terms of the number of accounts and amount, the share of small accounts were on a steady decline over the last two decades (Table 1).

Table 1: Share of Credit to Weaker Sections

End March	Small Borrowal Accounts			All Accounts			Per cent share of SBA in all accounts	
	No. of accts.	Amt. Outstanding	Average amt. (SBA)	No. of accts.	Amt. Outstanding	Average amt. (ALL)	No. of accts. (%)	Amt. outstanding (%)
1998	49,932	521.67	10.4	53,583	3299.44	61.6	93.2	15.8
Cut-off limit: Rs.200,000								
1999	50,997	882.82	17.3	52,305	3824.25	73.1	97.5	23.1
2000	52,856	1027.45	19.4	54,370	4600.81	84.6	97.2	22.3
2001	50,456	1062.94	21.1	52,364	5384.34	102.8	96.4	19.7
2002	54,130	1256.49	23.2	56,388	6559.93	116.3	96.0	19.2
2003	56,527	1450.57	25.7	59,491	7559.69	127.1	95.0	19.2
2004	61,900	1627.00	26.3	66,390	8803.12	132.6	93.2	18.5
2005	71,106	1998.80	28.1	77,151	11524.68	149.4	92.2	17.3
2006	77,122	2484.98	32.2	85,435	15138.42	177.2	90.3	16.4
2007	84,347	2788.95	33.1	94,442	19471.00	206.2	89.3	14.3
2008	94,554	3310.22	35.0	106,990	24170.07	225.9	88.4	13.7
2009	95,801	3498.65	36.5	110,056	28477.13	258.8	87.0	12.3
2010	102,632	3607.45	35.1	118,648	33451.69	281.9	86.5	10.8
2011	102,155	3838.88	37.6	120,724	40756.47	337.6	84.6	9.4
2012	109,111	4566.21	41.8	130,881	48032.67	367.0	83.4	9.5
2013	102,305	5148.33	50.3	128,286	55253.17	430.7	79.7	9.3

Source: RBI, 2015 (Survey of Small Borrower Accounts)

Inflation could be one of the noticeable reasons for this decline. Though, even when the cut-off of Rs.0.2 million for 1998 was adjusted using the price levels of 2013 and compared the shares of small accounts for these two years, the decline was apparent (Table 1). The share of small borrowers in total accounts declined from 93.2 per cent in 1998 to 79.7 per cent in 2013. The decline could also be seen in the share of SBAs in the amount of bank credit. On an average, these shares shrank by more than one per cent every year. (Reserve Bank of India)

2. Literature Review and Conceptual Findings

In the current worldwide economic situation, the poverty of urban household poor appears as a rising concern. The women tend to have limited access to services from formal financial institutions in less developed countries Rakodi (1995). Urban planning has served to exclude the poor, but it might be possible to develop new planning approaches and systems which address urban growth and the major environment and resource issues, and which are pro poor The Micro saving is not yet strong enough to become an effective poverty alleviation tool. Identified what the poor have, rather than what they do not have, focusing on their assets. The credit policy for the poor involves many practical difficulties arising from operation followed by financial institutions and the economic characteristics and funding needs of low-income families Moser (1998).

There are various studies available in literature some them are tabulated in following tables.

AUTHOR/YEAR	FINDINGS
Rupambara (2007), Foeken and Owuor (2008), Watson (2009), Shastri (2009), Imai and Azam (2010), Hoos (2010), Paraschiv (2012), Chamhuri et al. (2012), Sandhu (2013) Bansal (2014) Parikh, et al. (2015), Nath (2015)	**URBAN POOR HOUSEHOLD** • The economic welfare and growth of a nation depends upon the accessibility of people to financial product and services. • The relationship between infrastructure provision and poverty alleviation in serviced and non-serviced slums in India is on a negative side. • The politics of development took the shape of the World Bank influenced housing policy for the urban poor. • The schemes which are being introduced by government for urban poor are not being properly implemented reason being unfavourable political environment and unawareness among the poor who needs to be catered. • The access to housing remains high on the agenda of the governments in the developing countries. • The rapid growth of urbanization, social engineers have been compelled to give attention to providing financial services to meet the savings, credit, remittance and other financial requirements of the urban poor and not so poor engaged in the informal/unorganised sectors
Basu (1997), Fisher & Sriram (2002), Dehlstrand and Lundahl (2007), Fulford (2013), Han and Hare (2013)	**RURAL POOR** • The financial sector developed in India by the end of 1980s was largely supply and target driven. • Lack of awareness is the core reason for failure of extension of credit facilities to rural poor. • While many view financial access as a means of dropping poverty or increasing growth, empirical studies have produced contrary results. • Examined how credit markets operate through wealth to influence households' entrepreneurial choices.
A. Rahman (1999), World Bank (1999), Navajas et al. (2000), Gaiha (2001), Dunn & Gordon (2001), Dahich (2001), Amin et al. (2003), Mark et al. (2003), Jain and Mansuri (2003), Daniels (2004),	**MICROFINANCE & MICRO CREDIT & RELATED SCHEMES** • There are negative implications of applying the term micro-credit and micro-finance interchangeably, and there lies the functional and conceptual differences between them. • Micro credit had a useful impact on the enterprise promotion. • There is a long-run effects of micro-credit on development in an occupational choice model. • The expulsion of the poorest from welfare schemes is a result of their own lack of awareness about their capacity to repay loans. • Constructed a theoretical framework that identifies the societal worth of a microfinance organization in terms of the depth, worth, cost, breadth, length to the user and scope of its output • Here is a growing acknowledgement that micro-credit programmes have potential for equitable and sustainable development.

Chowdhury et al. (2005), Khandakar and Rahman (2006), Ahlin and Jiang (2008), Banarjee et al. (2014)	• There had been a positive change in the economic and social status of the borrowers which were surveyed. • Microcredit programs such as the popular Grameen Bank has not yet reached the relatively poor and vulnerable. • Informal lenders appear to be flourishing even in regions where microfinance institutions (MFIs), such as the Grameen Bank, have established lending programs.
Chonga et al. (2013), Raj et al. (2014), Balmaceda et al. (2014), Coco and Pignataro (2014), Yuan and Xu (2015), Haque et al. (2015)	**CREDIT MARKETS & SME'S** • The effects of financial liberalization on the credit market of a small and capital constrained economy depend on the market structure of domestic banks prior to liberalization. • In equilibrium, poor but able entrepreneurs may subsidise the rich and incompetent or be excluded. As a result, investment may exceed or fall short of the optimal level. • The poor women are often excluded from formal credit markets, but few empirical studies in literature have investigated whether the poor are constrained in the informal credit market. • Studied that banking competition may improve or hinder the financing of small and medium size enterprises. • There is little evidence on the effect of banking development on firm creation in the small firm sector.
M. M. Rahman (2002), Acharya et al. (2013)	**NBFC's NGO's** • The determinants of the growth of the non-deposit taking non-bank financial corporations (NBFCs) which are regarded by the Reserve Bank of India as being systemically significant and have grown noticeably in India over the past decade. • The non-government organizations (NGOs) are involved in the socio-economic and environmental development programmes in, supplementing the government's effort in specified areas.

3. Conclusion and Recommendations

There is an emerging need to improve the status of urban poor which should start with economic equality. Equality is a concept that is of equal importance to both urban poor and rural poor. There is a dire need to create Collective awareness, skill development, Participation, Decision making, gender equality. Study reveals Self Help Groups touched upon lives of poor lived in rural areas. New issues have to be addressed to effect social and economic progress of our nation. The most important one is upliftment of urban poor household. SHGs and other related schemes have unquestionably begun to make a substantial involvement in poverty alleviation and empowerment of poor, especially women but sadly confined in only rural areas of our country. Women's contributions are vital and their empowerment would hasten the pace of social development. Investing in poor's capabilities and skills and empowering them to achieve their selections and opportunities is the certain way to contribute to the economic progress and the complete development. The empowerment of urban poor leads to benefit not only to individual and groups, but also to the families and the community as a whole. Poverty Eradication is the major goal of development and sustainability in India empowering rural and urban poor through micro credit and related schemes and their timely reorganization with Government and NGO intervention to check their credibility.

Analysis indicates that micro finance activities has a positive impact on the income, assets, occupation, saving, access to bank, connectivity, confidence, self-esteem, self-worthiness and decision making level of the participation. Micro finance loan availability and its fruitful utilization found to be having a logical role and impact on breaking backbiting loop of poverty.

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