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Impact of micro finance activities on tribes (A study of Kotturu Mandal in Srikakulam district)

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Abstract
The need for informality in credit delivery and easy access is demonstrated by the fact that SHGs and Micro Finance Institutions (MFIs) constitute the fastest growing in recent years in reaching out to small borrowers. These institutions are able to effectively address the small ticket and last mile issues. In the four years between 2003 and 2007, small borrower bank account (credit) i. e. up to Rs. 25000 increased marginally from 36.9 million, while SHGs borrowing member grew from 10 million to 40.5 million and Micro Finance Institutions borrowers grew from 1.1 million to 8 million. In 2007-08, Micro Finance Institutions have added 6 million clients increasing their outreach to 40 million as per data brought out by Sa-Dhan. Financial inclusion is possible when all stakeholders realize that “inclusive banking” is good business than regulatory and policy frameworks that accessibility and responsible banking. The inferences drawn from this study reveal that, one key debate within Micro Finance has been whether donors and practitioners should focus on impact, i.e. improved living standards for the poor or financial sustainability. The former approach has been called ‘poverty lending’ or ‘the welfare approach’, whereas the latter is sometimes termed "Institution Building". The welfare approach supplements financial services with education and health services.
The Institution Building approach focuses on financial service. If poor people are willing to pay to use the institution, it must be offering them value only by ensuring financial sustainability. One view is that the most important form of micro finance is credit targeted to poor people who are also talented entrepreneurs. If these people gain access to credit, they will expand their businesses, stimulate local economic growth and hire their less entrepreneurial neighbors. While this approach has had significant results in the developing world, it has failed to reach the majority of poor people, who are rural subsistence farmers with little, if any, non-farm income. If any one go to any Indian village will find leaky hand pumps, parched fields and bony cattle is the ubiquitous Self Help Group (SHG's). Going by several names from ‘thrift’ and ‘credit’ societies to Micro Finance is now a fixture in the lives of rural women.

Keywords: Micro finance, micro enterprise, DWACRA, SHGs, NGOs, MDGs

Introduction
The institutional innovation based on the congruence with human nature aims at provision of financial services, mainly of credit and savings, to the poor in a sustainable manner. Banking industry in India has a long history of Micro Finance services and Micro Credit operations under the poverty alleviation programmes. Subsidized credit under Government sponsored programmes, not withstanding the proactive role of banks burdened the financial institutions with high transaction costs and low returns of Micro Credit and Micro Finance operations. A search for institutional innovation in sync with an important aspect of human nature i.e. the feeling of self-reliance and self-dignity has infused relevance and utility into development initiative of providing financial services to the poor.
Micro Credit and Micro Finance is being a poverty reducing institution that "pays for itself" has gained support from CSO's and NGO's and the Government. Micro Credit and Micro Finance, in the present context, is understood as provision of financial services to the poor through Self Help Groups (SHGs). Micro Finance is a term for the practice of providing financial services, such as Micro Credit and Micro Finance to poor people.
In the development model, Micro Credit and Micro Finance have evolved as a need based policy and programme to cater to the so far neglected vulnerable poor women. Its evaluation is based on the concern of all developing countries for the empowerment of the poor and alleviation of poverty.

This development paradigm has the core principles of self-help, mutual help and self-reliance. CSO's and NGO's and policy makers have included access to credit by the poorest among poor as corner stone of many poverty alleviation programmes in India and especially in Andhra Pradesh.

Women have become the focus of many Micro Credit and Micro Finance Institutions worldwide. The reasoning behind this is the observation that loans to women tend to benefit the whole family, than loans to men. It has also been observed that giving women the control and the responsibility of small loans raises their socio-economic status, which is seen as a positive change to many of the current relationships of gender and class. However, there is an ongoing debate about whether Micro Credit loans have the power to change established political and economic relationships.

According to one estimate, Micro Finance is one of the fastest growing Micro Finance organizations in the world, having provided over $ 180 million (Rs 740 crores) and has maintained loans outstanding of $68 million (280 crores) in loans to nearly 632,000 women clients in poor regions (spread across 11 states of India. Borrowers take loans for a range of income-generating activities, including livestock, agriculture, trade (such as vegetable vending), and production (from basket weaving to pottery). SKS also offers interest-free loans for emergencies as well as life insurance to borrowers. Its affiliate, SKS Education, provides education services to poor children, including running a government-funded school for girls who have dropped out of school. In 2006, SKS Micro Finance attracted the attention of Venture Capitalists, Small Industries Development Bank of India, Units Equity Fund, Sequoia Capital and they have invested in SKS India.

Recent Developments in Micro Finance

The Government of India is mulling some regulation for the Micro Finance / Micro Credit industry in India. At a seminar on Micro Finance organized by the Confederation of Indian Industry (CII) and the Small Industries Development Bank of India (SIDBI) in Delhi, in September 2006, the Chairman & Managing Director of the Indian Bank, stated “Micro Finance Institutions are limited in their delivery most are simply engaged in lending. Micro finance is also about saving, insurance, and investment. So far, micro finance initiatives have failed to link the beneficiaries to the capital market, and have met with little success when it comes to developing micro-entrepreneurship. In most of rural India, people still borrow to meet their daily consumption, not to fund an income generating enterprise”. The World Bank estimates that there are now more than 7,000 Micro Finance Institutions, serving some 16 million poor people in developing countries. CGAP experts estimate that 500 million households benefit from these small loans. The Economic and Social Council of United Nations proclaimed the year 2005 as the International Year of Micro Credit to call for building inclusive financial sectors and strengthening the powerful, but often untapped, entrepreneurial spirit existing in communities around the world.

There are five goals associated with “The Year” which are: Assess and promote the contribution of Micro Finance and Micro Credit to the Millennium Development Goals (MDG's): Increase public awareness and understanding of microfinance and micro credit as vital parts of the development equation; Promote inclusive financial sectors; Support sustainable access to financial services, and encourage innovation and new partnerships by promoting and supporting strategic partnerships to build and expand the outreach and success of micro credit and microfinance for all.

Independent borrowers earn the dignity and lasting self-confidence associated with responsible loan repayment. Institutional managers are more careful to ensure borrower success and generally perform better when there are risks involved. Entrepreneurial talent and energy are scarce invaluable resources for economic growth. Our economies cannot afford to develop independently responsible entrepreneurs, who are financial critical thinkers. These individuals can be attracted to the micro credit industry, but they are individuals with options they will not risk their future on unpredictable bureaucratic support. Traditional private banks should not be expected to offer micro credit. Existing banks with a traditional operating philosophy typically have significant investments in facilities and costly operating structures. Banking institutions motivated by a less myopic vision of profitably serving the common good can be capitalized for the primary purpose of entry-level economic development.

By lowering the transaction costs through institutional specialization and innovation in delivery systems, they will be able to operate profitably in markets characterized by very small transaction sizes and less affluent clients. Poor entrepreneurs have carefully applied their entrepreneurial energy and repay debts as scheduled to maintain access to future loans. In other words, poor entrepreneurs are not only breakable. Simply modifying old methods will not successfully expand poor people’s participation in their country’s economy. Investment in self-sustaining institutions is a comparatively cost-effective use of scarce subsidies for economic development. The costs of doing research in the micro credit and micro enterprise areas are extremely low compared to other strategies to stimulate economic development such as tax abatement or continued support for welfare programs. Micro Finance is expanding beyond its roots in savings and lending.

Savings-led Micro Finance has gained recognition as an effective way to bring financial services at the doorstep of poor. For example, National Bank for Agricultural and Rural Development (NABARD) finances more than 500 banks that on-lend funds to Self Help Groups (SHGs). SHGs comprise seven to twenty members, of whom the majorities are women from the poorest. Members save small amounts of money, as little as a few rupees a month in a group fund. Members may borrow from the group fund for a variety of purposes ranging from household emergencies to school fees. As SHGs prove capable of managing their funds well, they may borrow from a local bank to invest in small business or farm activities. Banks typically lend up to four rupees for every rupee in the group fund. Groups pay a reasonable 11-12% annual rate of interest. Nearly 1.4 million SHGs comprising approximately 20 million women now borrow from banks, which make the Indian SHG-Bank Linkage model the largest microfinance program in the world

Impact of Micro Finance in the Kotturu Tribal Mandal

Development initiatives by the Civil Society Organizations (CSO's) and Non-Governmental Organizations (NGO's) and the national and state Governments tend towards developing the material base of the rural community with the explicit objective of creating opportunities for additional income generation and employment. From the beginning, CSO's and NGO's had their own vision of the mechanisms to fulfill the credit needs of the poor, which was distinct from the mechanisms adopted by the Government. Under the poverty alleviation programmes based on wrong presumptions of the savings and credit behavior of poor, Government had provided for subsidized credit that met its fate failure and ineffectiveness. Being close to poor people for long years CSO's and NGO's had clarity on the pattern of financial services suitable for the rural poorest among poor. For the years, even before the arrival of the concept of Micro Credit and Micro Finance, CSO's and NGO's had been encouraging the poorest among poor to form into small thrift and credit groups.

Scores of SHGs under Velugu or Indira Kranthi Pathakam (IKP), Indira Mahila Yojana and the Mahila Samriddhi Yojana have been in existence since the 1980s to provide credit facilities to the poor women, in both tribal and rural areas. Every government wing viz., Forest Department, ICDS etc is obliged to set up an SHG. Many women are members of three to five SHGs. The 'Swayamsidha' or the Integrated Women's Empowerment Programme (IWEP) launched in the Women's Empowerment Year (2001) with the objective of "all round empowerment of women" is yet another scheme that represents the lofty but unrealistic thinking in official circles. The IWEP currently operates in five Mandals of Srikakulam. It functions as an alternative to the village moneylender, and not the source of social and economic empowerment of women by "ensuring their direct access to, and control over resources". In keeping with the project document, the groups are 'homogeneous', which translates into single caste and class groups, since 'ability to repay' is one of the criteria of group formation. 'Below Poverty Line' (BPL) families, with a monthly family income of less than Rs 1,100 is generally in case of tribal groups. Of course, it is another matter that any family can get a certificate of BPL for a price. In some villages, we were told, it was the higher castes that had declared themselves as BPL and were cornering all the government schemes and subsidies. The feudal values that are still deeply entrenched prevent the lower castes from protesting.

In this study to assess the economic impact of micro finance on the SHGs a number of 10 SHGs organizing by NGO and another 10 SHGs organizing under Indira Kranthi Patham (CSO) in the Kotturu tribal mandal of Srikakulam district are taken into consideration. The economic aspect of the impact of Micro Finance on the poorest among the poor tribal households has been measured in terms of difference in the magnitude of income, assets, savings, credit, interest rate and repayment performance. The change in pattern of income, assets, savings, credit, interest rate and repayment performance is mapped.

Income Profile

Change in tribal household income is an important parameter in understanding the impact of Micro Finance. Majority of the members in the age group of 0-2 years, opinion that their household income has increased by 20 percent following their involvement in Self Help Groups. 3-4 years age group SHG's have undergone a change of by 40 percent and groups above the five years age undergone a increase in income by 50 percent.

Table 1: Increase in Household Income (percentage)

S No	SHG's Age Group	No Change	Increase in Income				
			20 %	30 %	40 %	50 %	60 %
01	0-2 years	10.5	50.4	39.1	--	--	--
03	3-4 years	5.5	18.5	50.5	25.5	--	--
04	5 and above	--	15.5	20.5	15.5	20.5	15

Source: Field Survey

Asset Profile

Increase in income does not result in creation of asset. Seventy percent IKP and NGO-linked SHG's have reported an increase in value of their assets. However, seventy-two percent of 0-2 years age SHG's report change in the value of assets of SHG members.

Table 2: Change in the value of Assets of SHG members (%)

S. No	Change in value of Asset	No Change		Increase in Income		
		IKP	NGO	0-2 years	3-4 years	5 and above
01	No Change	20	14	10	12	10
03	Decreased	10	16	18	10	10
04	Increased	70	70	72	78	80
	Total	100	100	100	100	100

Source: Field Survey

Assets Structure

SHG member's land assets average value has undergone an overall increase of forty percent. Similarly, the average value of livestock and consumer durable has increased by thirty percent and thirty five percent. Land assets of twenty percent SHG members in the age group of 0-2 years have been increased to thirty percent.

Table 3: Average value of Assets possessed by SHG members (in Rupees)

S No	Change in value of Asset	SHG's Age Group							
		0-2 years		3-4 years		5 and above		Overall	
		IKP	NGO	IKP	NGO	IKP	NGO	IKP	NGO
01	Land	3,000	3,200	2,500	3,000	2,000	3,200	2,800	3,500
02	Livestock	900	1000	950	1,000	600	1,500	850	1,100
03	Consumer Durables	1,300	1,750	1,150	1,650	1,250	1,500	1,200	1,800

Source: Field Survey

Savings pattern

The overall average savings of SHG's has increased by Rs.450/- for IKP and Rs.600/- for NGO.

Table 4: Average Annual Savings of SHG members (Rs.)

S No	SHG's Age Group	IKP	NGO	Incremental Saving	Percentage of increase
01	0-2 years	450	600	150	25
03	3-4 years	600	900	300	35
04	5 and above	600	1,050	450	40

Source: Field Survey

From the information provided in the above tables reveal that, one key debate within Micro Finance has been whether donors and practitioners should focus on impact, i.e. improved living standards for the poor or financial sustainability. The former approach has been called ‘poverty lending’ or ‘the welfare approach’, whereas the latter is sometimes termed "Institution Building". The welfare approach supplements financial services with education and health services. The Institution Building approach focuses on financial service. If poor people are willing to pay to use the institution, it must be offering them value only by ensuring financial sustainability. One view is that the most important form of micro finance is credit targeted to poor people who are also talented entrepreneurs. If these people gain access to credit, they will expand their businesses, stimulate local economic growth and hire their less entrepreneurial neighbors. While this approach has had significant results in the developing world, it has failed to reach the majority of poor people, who are rural subsistence farmers with little, if any, non-farm income. If any one go to any Indian village will find leaky hand pumps, parched fields and bony cattle is the ubiquitous Self Help Group (SHG's). Going by several names from ‘thrift’ and ‘credit’ societies to Micro Finance is now a fixture in the lives of rural women.

Conclusion

The inferences drawn from this study reveal that, one key debate within Micro Finance has been whether donors and practitioners should focus on impact, i.e. improved living standards for the poor or financial sustainability. The former approach has been called ‘poverty lending’ or ‘the welfare approach’, whereas the latter is sometimes termed "Institution Building". The welfare approach supplements financial services with education and health services. The Institution Building approach focuses on financial service. If poor people are willing to pay to use the institution, it must be offering them value only by ensuring financial sustainability. One view is that the most important form of micro finance is credit targeted to poor people who are also talented entrepreneurs. If these people gain access to credit, they will expand their businesses, stimulate local economic growth and hire their less entrepreneurial neighbors. While this approach has had significant results in the developing world, it has failed to reach the majority of poor people, who are rural subsistence farmers with little, if any, non-farm income. If any one go to any Indian village will find leaky hand pumps, parched fields and bony cattle is the ubiquitous Self Help Group (SHG's). Going by several names from ‘thrift’ and ‘credit’ societies to Micro Finance is now a fixture in the lives of rural women.

The implications of facilitating the formation of homogeneous caste/religion groups in these communalized times apart; these groups do provide a measure of relief from exploitative usury arrangements in villages (sometimes as high as 20-25 per cent every month). The ‘success’ of this approach was due, in no small measure, to the finding that loan repayment rates among women is extremely high. However, to assume that SHGs result in the empowerment of members is illusory. Far from “empowering” women, the SHGs, with about 20 members each, are mostly occupied with intra-loaning among members. The reasons for the loans vary from school fees and uniforms, blasting wells and buying fodder, to childbirth and weddings. As numerous “success” stories of SHGs testify, women are also able to buy more consumer goods.

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