CHAPTER-I
INTRODUCTION

1.0 Study Background

Microfinance has been acknowledged as the only alternative mechanism for rural poor people to break out the ‘vicious cycle’ of poverty. The reason is that, it has the potential to improve users’ incomes and savings, and accordingly, improve assets accumulation and reinforce far above the ground incomes (Atieno, 2001). Although it is the main stream finance, institutions have a significantly helping the poor to improve their well-being, poor people are excluded from formal financial systems. Such exclusion ranges from partial keeping out in developed countries to full or almost complete elimination in less developed countries (LDCs) (Brau & Woller, 2004).

Since days in the path of development, socio-economic and politic systems go through changes in their institutional structures at different points of time. But, the pace and course of these changes may vary from one system to another. The marketing things are not the same between developed and developing countries in their economic organizations, interactions of the individuals and the institutions mediating relations. Institutions and market together play the role of mediation, which facilitates transactions. Under many circumstances, actual functions of the markets, however, deviate from the neo-classical position of perfect in order with cost-less transactions (North 1989; Stiglitz 1989, 1990).

There has been a growing attention in the current past in micro-finance, particularly in 21st century, in the context of reaching out to the World poorest families. Microcredit, or microfinance, has been defined as banking the unbankable, loan, come to a place credit, savings and other necessary financial services inside the reach of millions of the people who are too poor to be served by regular banks, in most cases because they are unable to offer adequate collateral. In general, banks are for the people with money, and not for people without resource (Gert van Maanen, 2004).
The term microfinance is of recent origin. It has become a worldwide movement as it has the potential to become an important component in addressing the issue relating to rural poverty. Two of the millennium development goals (MDG) of the United Nations announced in 2001, viz., MDG1 eradicating extreme poverty and hunger, and MDG 3- ‘promoting gender equality and empowerment of women’ emphasized on the two main objectives of microfinance viz., addressing poverty and empowerment of women.

While the year 2005 has been declared as ‘micro-credit year’ by the member states of the United Nations the G-8 member states have just reaffirmed the crucial important of microfinance as a development tool. The action plan of the G-8 countries mentions that “sustainable microfinance can be a key component in increasing sound financial market structure in the world poorest countries”. The world bank-based consulates a group to assist the poorest (CGAP) and also to support G-8 countries to launch global market based on microfinance initiatives.

In India, the microfinance programme has gained rapid momentum since 1992 when an innovative bank linkage programme of the National Bank For Agriculture and Rural Development (NABARD) through self help group (SHGs), showed positive result in the process for development through microfinance in the rural areas and enabling the rural poor to establish a closer link with the bank in the formal sector and to make an easy access to microfinance from various economic actives. Recently, the year 2007 also witnessed the national debate on the proposed ‘microfinance financial sector (development and regulation) Bill’ introduced in the Indian parliament indicating the significance and values of microfinance in the development field in general and poverty reduction in particular.

But, all over the world the issue of addressing poverty, particularly rural poverty, has engaged the attention of the planners, the economist and others social scientists for decades. Poverty has many dimensions. In addition, illiteracy, gender, inequality, and environment
degradation have all the aspects of being poverty. This is observed to be more prevalent in Africa, Asia and Latin America countries.

In today’s context, if one looks at the growth of the economy, then one can observe a contrasting scenario. On the one hand, the Indian economy has been growing at an accelerating pace. On the other hand, a larger section of the society remains excluded from reaping the benefits of such economic growth and found living in abject poverty.

According to the ‘report of the group on agriculture indebtedness’ (Radhkrishna committee, 2006) rural indebtedness has long been treated as distress phenomenon, which has pushed a large number of rural people to the abject poverty. It is indeed a distress, if the debt taken was not used for productive purposes like purchase of inputs that augment output or creation of assets that augment the earning base of the borrowers and instead is used for consumption purposes or marriages and social ceremonies. Interests become a heavy liability if the loan is taken from the non-institutional sources like the money lender at high rate of interest. The accumulated liability of principal and compound interest can sometime become crippling burden, and the borrower is forced to mortgage or sell his land losing thereby his only means of livelihood.

Looking at the source of debt among the rural households, it is observed from the report that the above mentioned total rural household was estimated at Rs.1.13 lakhs crore in 2003, of which Rs. 65,000 crore was from institutional agencies and Rs. 48,000 crore from non-institutional agencies. Private money lenders accounted for Rs.29, 000 crore and traders for Rs. 6,000 crore. About Rs. 18,000 crore of debt was from non-institutional sources, and the major portion of which was from money lenders, carried an interest rate greater than 30 percent. clearly, there is an urgent need to relieve the rural people from private debt in the informal sector, carrying high interest rate by transferred it to institutional agencies in the formal sector.
According to the ‘report of the committee on financial inclusion (RBI, 2007), at the country level, ensuring access to banking services to at least one member of each family would mean 200 million additional clients for the banking system. As against this, the number of loan accounts with the bank system is an estimated 125 million. If the definition of financial inclusion is expanded to ‘providing access to all adult members of the population’, at the least, the numbers of potential clients to be served would increase to about 600 million. All commercial banks put together carry 466 million deposits accounts in their books. The data amply bring out the fact on the gap in banking services to be filled up in India.

So, on the one hand here it shows the acceleration in the pace of poverty eradication and rural development and the other hand, one can see the burden of private debt on the rural people and also a large gap between the number of potential and actual clients with the banking system. Here is where microfinance shows promise to fill the gap providing the much needed comfort to the un-served and underserved rural poor in the country.

When talking about microfinance and its impact on poverty reduction, rural development, the experts and policy makers need to integrate the issue with the those of poverty stricken and to those who are expected to provide microfinance services, mainly the banks. In that respect, a much more needs to be done to increase the pace of implementation of microfinance programmed in the rural parts of the country.

1.1 The Research Problem setting

The history of development interventions in India arises from multi-layered and distinctly different theoretical underpinnings, in different phase of the time. During the pre-independence period in India. It could be traced to the foundations of specific development interventions of the late nineteenth century some of which focused on upliftment of the poorer section of the community.
Later, in the 1950 and 1960s the social welfare approach was predominant. Simultaneously the Gandhian approach combined social reforms with village development activities (Riddell Robinson, 1995).

During the latter half of the 1970s a more radical trend emerged. This approach was critical of the oppressive structure and it wanted the oppressive structure to be changed through education and organization of the oppressed. So poverty was viewed as a structural phenomenon and needed to be tackled through the active mobilization of the poor.

Development agencies continued their search for cost effective ways of poverty alleviation and in the 1980s began trials in different parts of India to extent credit via women's groups. By the end of the1890s, microfinance through women’s groups was emerging to be accepted as an effective means of promoting individual and group income generating activities, and at lower costs than erstwhile microfinance enterprise support programmed (karmaker, 1999).

Acknowledging the success of functioning of self help group (SHGs) in channeling development benefits to poor women, the government merged all the major poverty alleviation programme in rural areas into a single self employment programme called (SGSY) to be implemented through SHGs at least half of which would be women’s SHGs (ministry of rural development, 1999). Thus SHGs become the most socially accepted channel for empowerment of poor in general and women in particular in rural areas.

At the same time, SHGs system for delivering microfinance to the poor has been increasingly found facilitating financial efficiency and sustainability to the supplier of the finance. Even as more and more financial products begin to be offered to the poor ( the expending the realm of microfinance , credit into micro financial services including credit, savings, insurance ) thus focus led to a minimalist approach, which assumes that the provision of microfinance alone will unleash other forces that lead to poverty eradication (copestake, 2000).
The institutions common in less developed countries are not difficult enough to provide somewhere to stay changes easily and hence, they are characterized by institutional imperfections. The institutional framework used for trade with these imperfections is also less effective. In these countries, market failures are quite common and non-market ameliorating institutions are meagre (Stiglitz 1989). Thus, high transaction cost prevents the economies to grow and societies to develop in those countries. In addition, informal institutions like customs, caste and social sanctions.

Micro-finance programmes have been promoted both by the government and the non-governmental organizations. India joins hands with other developing countries like Bangladesh, Sri Lanka and Indonesia in this regard. These are small groups of poor women engaging in activities of savings and lending operations. Such groups are called Self-Help Groups (SHGs) in India. The concept of SHG is wider, and is not the same as the micro-finance group. In the context of micro-finance, a SHG consists of 10-15 members. SHG members can be both men and women. However, 90 per cent of the SHGs in India have only women as their members (NABARD 2004), who periodically contribute a fixed amount of savings and borrow from the savings fund thus created.

The bankers are ready to lend to these poor women groups as they exhibit a high repayment rate of more than 95 per cent (NABARD 2004) and also they are instructed from the central bank to earmark a certain proportion of their lending to SHGs. Thus, the major bottleneck faced by the poorest, i.e., lack of access to credit to make investment, is sought to be resolved through the establishment of micro-finance groups. In recent years, development programs of the government have also sought to target the poor through the SHGs. Starting with the Rashtriya Mahila Kosh and the Indira Mahila Yojana, the government has used the SHGs approach in many of its anti-poverty projects. The most important district that uses the SHGs approach for the government programme is the Vellore district and one such
programme that uses SHGs is (Swarnajayanti Gram Swarojgar Yojana (SGSY) launched in 1996.

1.2. Importance of the study

After passing more than six decades of independence, many tribal regions in the country still lacks development. It shows some evidence that the Planning Commission, during 2005-06, in all Indian level, 47.3 percent of Scheduled Tribe households are in the below poverty line in rural areas as against 33.3 percent in urban areas. While in rural areas, the highest percentage of the people below poverty line was found to be Scheduled Tribe households as compared to all other community household like SCs (36.8 percent), OBC (26.7 percent) and others (16.1 percent), and in urban areas, the highest percentage of people below poverty line was SCs (39.9 percent) as compared to STs (33.3 percent), OBCs (31.4 percent) and others (16.0 percent). Comparison of similar data presented planning commission of India reported that in rural areas the Percentage of ST population below poverty line was 51.94 in 1993-94 and 45.86 in 1999-2000. Though the percentage of STs below poverty line in rural areas has declined from 51.94 in 1993-1994 to 47.3 percent in 2005-06, the GAP of STs to all has risen from 15 percent to 19 percent in rural areas.

Today micro finance/micro-credit access has become an important tool for rural development and poverty reduction. The study needs to undertake how much has been microfinance induced tribal economic development and their needs.

1.2.1 Demand side

As such, the present study addresses itself the following questions:

What is the socio-economic profile of the tribal people and are they gainfully employed? To what extent the micro-finance access initiatives touch the significance of the rural problem? What is the impact of the microfinance programmes on the living conditions of the tribal people? Is it more inclusive or reduced poverty? What are the problem/constraints which
pose uncertain blocks to realizing the objectives of programmes? What is participation of the rural poor in the micro-finance programmes?

1.2.2 Supply side

Since the financial institutions like commercial banks, regional banks, cooperatives banks and nationalized banks are involved in implementation of microfinance programmes like SHG linkage programme, SGSY etc., How does financial institutions involve in terms of strategy, microfinance products and services, delivery mechanisms etc., in these programmes? In the case of Interest rate, what are the specific problems in implementation of microfinance programme? How does commercial banks, formal sector and the micro-finance institutions (MFIs) coordinate with other non credit service agencies including government departments in the process of tribal development through micro-finance? What are the extent of recovery of microfinance made under these programmes?

Combining the merits of both sustainability and targeting of the microfinance institutions, a new financial institution, called micro-finance group, emerged not only to address the imperfection in the rural credit markets but also to concern the relating to reduce the rural poverty and the women empowerment. In these groups, the transaction costs arising out of the financial market dealings could be reduced through repeated interactions, familiarity of the members and small size of these groups.

Under micro-finance groups, large number of poor people without adequate individual physical collateral could access microfinance based on the social collateral. The peer pressure was the main force behind the continued existence of the group. The joint liability provided incentives to (and/or compels) the group members undertake those actions, which reduced uncertainty in the credit market (Ghatak and Guinnane 1999; Bhatt and Tang 1998; Morduch 1999b). Thus, collective action within the group was the key aspect of micro-finance groups. The reliability and the sustainability of micro-finance institutions, however, depended on how well it could enforce the contract among the members. Micro-finance groups arrive at certain
rules and regulations to ensure that the mechanisms concerning the contractual relations were in operation.

Similarly, the members were provided with adequate incentives to promote co-operation or to avoid the emergence of non-cooperative outcome. Institutional mechanisms and incentives involved in the selection of borrowers, monitoring the utilization of the microfinance and ensuring repayment of the microfinance were, thus, important in microfinance programmes. The incentives and mechanisms for the selection of borrowers aimed to rectify the problems of adverse selection, whereas, monitoring of the utilization of microfinance looks into moral hazard problems and enforcing repayment tried to avoid the chances of free rider problems.

The theoretical foundations for micro-finance (i.e., institutional economics) and collective action for good outcomes in micro-finance group state that institutional regulations play a major role in the reduction of information irregularity and incentive problems. It is in this context that a study on the incentives for and processes of collective action in different types micro-finance groups, the impact of mechanisms and incentives in undertaking collective action and the pattern of selection, monitoring and repayment become important. Some of the questions that can be raised in this context are as follows. What have been the institutional mechanisms and incentives provided to the members in selection, monitoring and repayment? Do micro-finance programmes select the neediest? Or, do they select members’ borrowers on the basis of risk bearing capacity? How is the monitoring and supervision pattern of the borrowers? Does this make any differences to the selection of activities for which microfinance have been taken for? What kind of training programmes have been organised for the poor and what impact does this have? What types of economic activities has the micro-finance group members undertaken? What have been the repayment patterns among different types of groups and members? How are the members repaying the microfinance? What have been the institutional regulations and incentives for all the above? Do they work?
If yes, how? If not, why? This study seeks to address these questions in the specific context of micro-finance programmes of India.

The Tamil Nadu state government also took keen interest in micro-finance groups after the successful implementation of the (MSUK) Magalir Suya Uodhavikulu and also training through Vazhandu Kattuvam Scheme, Community Development programme of Vellore organized as part of the decentralization efforts in the 2010s. In the year 1999, the Government of Tamil Nadu, in collaboration with NABARD and Government of India, had set up SHGs through State poverty Eradication Mission of the Government of Tamil Nadu. This programme, proposed by the Left Democratic Front (LDF) government, mainly aimed to strengthen Grama panchayaths (introduced at the grassroots level, since gram panchayaths in the state were very large in terms of population size). It was assumed that women participating in SHGs could bring their local issues to the grama panchayaths’ notice, where SHGs held amiable. The mobilization of savings, and labor could be undertaken through SHGs’ organized and promoted during the Peoples' Planning Campaign decentralization III programme of the state. Urban poverty alleviation programme introduced in 1992 in the Alangayam black was Community Development Society which developed a nine point criteria for the identification of the Grama Shaba is the assembly of the ward level members of a panchayat where they discuss issues relating to their priorities of Execution implementation and assessment of the programmes.

Many studies have been conducted on rural and urban based in India and abroad but this study focuses on the tribal households accessing microfinance and household development. So this can be claimed as the first study undertaken in India and in Tamil Nadu as such. Many studies have been conducted on methodology part with simple percentage and descriptive statistics. The researcher focuses on the accessibility to microfinance of tribal households and impact, and repayment of loan with analysis of econometric technique tools.
1.3 Objectives of the study

In the light of these backgrounds, the objectives of the study are as follows:-

1. To examine whether microfinance facilities have access for the Tribal areas.
2. To investigate the impact of microfinance on income level of beneficiaries before and after the accessibility of microfinance in the tribal study area.
3. To examine factors affecting repayment performance in microfinance programs in tribal beneficiaries.

1.4 Hypothesis

1. Microfinance facilities have not been available for the tribal area of district Vellore.
2. To investigate have not the impact of microfinance on income level of beneficiaries in the Tribal community of the study area.
3. To examine have not factors affecting repayment performance in microfinance programs in tribal beneficiaries.

1.5 Limitations of the Study

This was the first research study on impact of microfinance and tribal development conducted from a research angle in the Vellore district of Tamil Nadu. Most of the data is available at the national level. It is difficult to gather data about the economic and financial requirements of the Tribal’s in the deep interior areas. The Illiteracy among the Tribal and lack of willingness to reveal the details act as major impediments for the researchers in compiling data. The data on the amount of microfinance dispersed does not establish a relation between the recovery rate and the period of the loan.

The study is confined only to the tribal (Malaiyali) community female and male microfinance beneficiaries and included non-beneficiaries in the study of hilly region. It is limited to Jawadhu Hills and Yelagiri Hills only due to paucity of time and other resources at
the disposal of the researcher. It has concentrated only on the different aspects of
microfinance access and their relationship to the household improvement of Tribal. This is a
major limitation of the study.

1.6. Research Methodology

1.6.1 Source of data

The present study is based on secondary as well primary data collected through a field
survey of providers of financial service and rural households, in Alangayan block and Jolarpet
block of the Vellore district of Tamil Nadu. All the relevant and available information were
collected at various levels, secondary data were collected from the census of India, national
sample survey reports, proceedings of the states level bankers, Vellore district, (PLPs)
potential credit linked plans of national bank for agriculture and rural development
(NABARD), Annual Reports of reserve bank of India, and blocks plans as prepared by the
Vellore district.

Besides, research journals such as journal of economic research, special edition on
risks managing microfinance and insurance from the journal of insurance and risk
management, special issue on non-farm sector from the journal of labour, estimation and
assessment of poverty, social capital, seminar and conference papers on microfinance,
economic magazines on this subject etc., have also been referred to.

1.6.2 Econometric model for data analysis

In order to bring objectives & test the hypotheses, econometric models such as Logit
Regression Model, Truncated Regression Model, and Multinomial Regression Model were
used to access Microfinance. Detailed descriptions of the methodology used in the study are
given in the respective methodology chapter three.

1.7. Organization of the Study

Chapter-I of the study provides a backdrop and begins with a general presentation
regarding approach to dealing with accessibility on microfinance, impact and repayment. It
also includes the scope and objectives, importance of the study, the methodology followed, hypothesis developed, econometric tools/techniques used and the limitation of the study.

The second chapter discusses the theoretical and empirical literature pertaining to the institutional dimensions of the microfinance with special reference to micro-finance programmes. Micro-finance programmes have been introduced by the developing countries to address rural household access market imperfections. As incentives and mechanisms play a significant role in facilitating the factors repayment, these have been discussed. It also attempts to identify gaps on the subject in these studies.

The third chapter discusses the profile of study in various ways where the data for the present study was collected and examines how the objectivity of the study was ascertain with help of various econometric methods and instruments of data collection and also discusses the factors contributing towards the growth of both NGOs initiated and government initiated micro-finance programmes in Javadhu Hills district of Tamil Nadu state. The significance of micro-finance programmes in this district has been explained in terms of socio-economic composition of the people.

The fourth chapter discusses microfinance penetration/access in tribal area in the selection of borrower households. After discussing the mechanisms and incentives adopted by the groups, microfinance in the selection of borrowers have been examined in terms of the amount of microfinance received by the members and the selection procedure followed in the groups. It investigates the impacts of microfinance on incomes and assets level of the beneficiaries before and after of the tribal community of the study area. To analyses the issue of what are the socio-economic factors affecting repayment performance enforcing repayment of the microfinance borrowed. This has been examined in terms of the various repayment mechanisms and incentives followed across the groups. This chapter also deals with different repayment sources. It has been examined by the various factors, which has played significant roles toward delay in repayment of microfinance. Finally, the chapter discusses the issue of
how members compose repayments in the absence of factors adopted by a majority of the members.

The fifth chapter provides the conclusion of the study and implications of the policy. Moreover, discussion of the major findings and directions for the further studies has been laid down in this chapter.