CHAPTER – III

IMPACT OF MICRO FINANCE

3.1. Concept of micro finance:

Micro Finance is an economic instrument, to empower women in rural India. It has given relief to them from the clutches of local money lenders. The co-operative movement, started in 1904, has strongly covered the rural masses under its umbrella. However, the micro credit institutions have been accepted by these rural people as a better alternative. The nationalized and the commercial banks have been directed by the Reserve Bank of India to give loans to priority sector, covering the rural population. But they failed to accomplish the task..

The micro finance advances small loans towards working capital or consumption. There is normally an informal appraisal of borrowers and Joint liability of groups would be the collateral. It also involves compulsory saving, training for both skills and fiscal discipline, large repeat loans, based on past loan performance and low cost loan disbursement and recovery.

The micro finance institutions provide credit to the SHGs without any collateral securities, at minimum rate of interest. Although some micro finances provide enterprise development services such as skills training and marketing and social services such as literacy training and health care, these are not generally included in the definition of micro finance.¹
Micro Finance Institutions (MFIs) can be non government organizations, saving and loan co- operatives, credit unions, government banks, commercial banks or non banking financial institutions. Micro finance is normally demanded by small operators like low income entrepreneurs, traders, street vendors, small farmers, service providers, artisans, fisher folks etc. Regularly their activities provide a steady source of income. Although they are poor they are generally not considered to be the poorest of the poor.

3.1.1 Background of Microfinance

Micro Finance emerged in the 1980s as a response to doubts about state delivery of subsidized credit to poor farmers. In the 1970s, government agencies came forward to help poor people and help them to promote agricultural production. In addition to providing subsidized agricultural credit, donors set up credit unions, inspired by the Raiffeisen Model developed in Germany, in 1864.

Beginning in the mid-1980, the subsidized, targeted credit model support by many donors, was the object of steady criticism because many programmes accumulated large loan losses and they required frequent recapitalization to continue operating. This led to a new approach, that considered micro finance as an integral part of the overall financial system.

At the same time, local NGOs adopted a longer-term approach to community development. In Asia, Dr Muhammad Yunus, ‘winner of the Nobel Peace Prize 2006’ of Bangladesh, led the way with a pilot group lending scheme
for the landless people, ‘It later became Grameen Bank’. It became a model for
many countries.²

3.1.2 Sustainable development through micro finance:

Micro Enterprises are usually business or self-employed people operating
in the semi-formal and informal sectors. In most developing countries, micro –
Enterprises and small-scale enterprises account for bulk of companies and a large
percentage of employment. The micro finances are financed by the public sector.
In some cases, micro finance are financed by a combination of local government
and international donors. ³

Donors can in fact provide financial and non-financial resources through
micro finance. However, donors and government who fund microfinance
activities, should ensure that they are not subsidising interest rates for the poor,
unless they aim to do this in perpetuity as this will minimize the chances of the
operations becoming sustainable. Limited duration of subsidies is necessary for
a pro – poor micro finance activity and such subsides are probably better targeted
to improving the management of micro finance. Any resource in the form of
subsidies from donors, should be temporary and transparent, and not lined to
lending activities but rather to institution building. ⁴

3.2 Examining the impact of microfinance on fisherwomen’s lives in India

Jayaraman of NABARD studied the performance of fisherwomen self-
help groups (SHGs) in Tamil Nadu, India. Data were collected from 725
fisherwomen SHG members, from 41 SHGs, in five coastal villages, during May-October 2004.

The study found that fisherwomen SHGs availed micro credit and also reported prompt repayment. Findings include:

- Average membership of SHGs was 17
- About 86 percent of fisherwomen SHG members used banks for microcredit and 75% of women under study were equal partners in family decision making
- Banks charged an interest rate of 9-12% for microcredit, extended to fisherwomen SHGs
- Almost all SHGs reported 100% repayment;
- Internal loans and bank credit were availed by members for various purposes such as improvement of occupation, repayment of old debts, and house construction and alteration.

About 63% of fisherwomen SHGs members were politically involved in Panchayat Raj Institution leading to their social empowerment. The study concluded that socio-economic empowerment of the fisherwomen was made possible by micro finance and it also improved their livelihood conditions and in the process, banks could reach the unreached coastal poor, profitably.
Redefining Womens Empowerment in the context of Microfinance

Swain examined the major impact of Self-Help Groups (SHGs) on womens empowerment in India. Swain adopted the definition of empowerment as given by the World Bank and argued in the South Asian context that empowerment occurs when women challenge existing patriarchal norms to effectively improve their well-being. Three types of activities involving women have been identified that lead to greater efficiency, namely:

- Efficiency-improving activities are considered to be within the woman’s domain
- Community-driven development activities taken up by SHG members
- Activities that empower women.

Majority of self help groups are linked through NGOs, that afford technical and financial support, and have a greater capability to empower women compared to minimalist microfinance programs. SHGs can ensure everlasting empowerment by placing greater emphasis on training, education and awareness-building, decision making and leadership quality.6

Micro-finance is a form of banking service that is provided to groups who otherwise have no other access to get financial services. In other words, the main objective of micro-finance is to provide an opportunity to low income group to become self-sufficient by providing a way to save money, borrow
money and get insurance. Micro financing provides options to fisherwomen with limited resources to promote participation in productive activities or to support a small business as fish traders. While institutions participating in the area of micro-finance are most often associated with lending, some micro-finance companies offer additional services, including bank accounts and insurance. Additionally, some institutions provide information in the areas of financial literacy, such as understanding interest rates, operating bank accounts and managing money transactions etc.

Micro financing is not a new concept. Small microcredit operations have existed since the 18th Century. The first occurrence of micro lending was attributed to the Irish Loan Fund System, introduced by Jonathan Swift, which sought to improve conditions for impoverished Irish citizens.

**Microfinance Loan Terms**

Like conventional banking operations, microfinance lenders must charge minimum interest on loans, and they should institute specific repayment plans with payments due at regular intervals. Not all applicants qualify, depending on the amount of default risk the institution attributes to potential borrowers and the terms of the loans for which the borrowers are applying.

**Concerns Regarding the Microfinance Industry’s Practices**

While these interest rates are generally lower than those offered by normal banks, some opponents of this concept raise concern that microfinance
operations are making profits off the poor. Not all funds provided through micro financing are used for productive activities and some may be used for covering basic needs, such as food and shelter.

**Micro financing Operating Locations**

The majority of micro financing operations occur in developing nations, such as Uganda, Indonesia, Serbia and Honduras. Even though the borrowers often qualify as very poor, repayment rates are often seen to be higher than the average repayment rate on more conventional forms of financing. For example, the micro financing institution Opportunity International reported repayment rates of approximately 98.9% in 2016.

**International Finance Corporation Estimates**

The International Finance Corporation (IFC), part of the larger World Bank Group, estimates that more than 130 million people have directly benefited from microfinance-related operations as of 2014. However, it is only available to approximately 20% of the three billion people who qualify as part of the world’s poor.

In addition to providing micro financing options, the IFC has assisted developing nations in the formation or improvement of credit reporting bureaus in 30 nations. It has also advocated for the addition of relevant laws governing financial activities in 33 countries.
Microfinance is a term for the practice of providing financial services, such as micro credit, micro savings or micro insurance to poor people. To gather usably large sums of money, this expands their choices and lessens the risks the needy face. As revealed by the name, most businesses involve small amounts of money, frequently less than rupees 100. The origin of microfinance is often dated as late as to the 1970s. Only then, it is often claimed, did any programs pass two key tests:

1. The poor people can be relied on to repay their loans, and
2. Could afford to provide financial services to poor people through market-based enterprises without subsidy.

Perception of Microfinance:

The concept of micro credit can be traced to portions of the Marshall Plan at the end of World War II in the middle of the 20th Century. Lysander Spooner in the middle of Nineteenth Century, wrote regarding the need for small loans for commercial activities to the poor as a way to eradicate poverty. Later it led to the formation of New York’s Provident Fund. Nevertheless, in its most recent manifestation it can be linked to several organizations, starting in the 1970s and onward.

Micro Finance in India

The Government of India has introduced some regulation for the Microfinance. In industry in India and in his budget speech on 28 February
2006, the Finance Minister P Chidambaram declared that he had planned major improvements in respect of micro finance in the Budget, RBI has since issued guidelines to enable all banks to appoint Banking Correspondents and Banking Agents.

**Micro Finance and its growth:**

The World Bank has assessed that there are at present more than 70,000 microfinance institutions, helping some 16 million poor people in developing countries. The authorities estimate that 500 million low income group of people are profited from these small loans. Cambodia and Kenya were put forward as examples. Asia and the Pacific region represent 83% of accounts in developing countries, which is comparable to 17 accounts for 100 persons. In November 1997, more than 2000 delegates from 100 countries gathered at a Micro Credit Summit in Washington, DC, with the objective of reaching the world’s poorest families, with credit for self-employment and other financial support and business services by the year 2005. Sustenance for these goals has come from prominent world leaders and major financial institutions.

**Micro finance supporting institutions in Tamil Nadu:**

Either during natural disaster or manmade disaster, the Government along with the support of NGOs and public supported the fisher community in all their basic needs this was evident during Tsunami, Varda Cyclone, Thane Cyclone etc. There are many NGOs who supported fisher community during the calamities were M.S Swaminathan Research Foundation (MSSRF), Action
AIDS, Human Welfare Trust, Association for Rural Development, Amma Trust, Action of Human Movement, etc are some NGOs worth mentioning. M.S. Swaminathan Research foundation was engaged in the action for long term recuperation in Tsunami affected area, by focusing on the revival of livelihoods through the formation of SHGs. like (MSSRF), and extended, interest free loan facilities in the name of: Community Bank Loan”. An opportunity was given to the women in fisheries to wisely utilize the loan amount either for children education, buying fishing net, repair work of boat, medical expenses and income generating activities. Also they supported integrated aquaculture, marine products processing, manufacture, and export development. A lump sum amount of Rs five lakhs was given to Tsunami affected villages in coastal areas of Tamil Nadu. The repayment of loan was very satisfactory and 100 percent repayment was observed.  

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END NOTES


2. Ibid., P.5.


4. Ibid., P.13.


