

A detailed study of Micro Finance as a tool for Tribal Transformation in areas of Madhya Pradesh

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ABSTRACT: *Micro financing has been recognized as a weapon in the financial world to overcome the problem of poverty. It is providing a hope to the poor who have the ability to manage their financial resource but in the lack of finance they fail to improve their livelihoods. In the recent years, apart from the unorganized financial sector, the organized financial sector has been emerging in a big way to participate in the micro finance movement, specifically in the rural areas. However, a lot of efforts are still required to pave the way for this movement among the formal financial sector. The present paper reviews the various issues which so far have been addressed in the literature of microfinance. The present study is an attempt to examine this unattended area through the institutions of microfinance. Data deficiency and non-availability of reliable literature had been a major constraint in the pursuance of this study. An attempt has been made to examine the Micro finance institutions and the Self help Group's role in examining the case of scheduled tribes in the district of Hoshangabad, Sehore & Raisen (Madhya Pradesh). Efforts have also been directed towards suggesting some effective practical measures for alleviating the conditions of this major section of the society.*

Keywords: *Microfinance, Poverty, Financial Sector, Self-help Group*

I. INTRODUCTION

India is a developing country, where majority of the population resides in rural areas and for the rural development, poverty reduction needs to be the focus of all development programs. The basic cause of the problem of poverty has been the found to be the economic dependence and lack of access to the credit. Poor have been considered to be non bankable. They are deprived of the basic financial services in the lack of saving and collaterals to be offered to the finance provider. Consequently, the poor have to depend upon the informal channels of finance like private moneylenders who generally, exploit them in the name of financial help and often, lead to lifetime indebtedness among the borrowers. Microfinance has emerged as a major intervention aimed at poverty reduction. Access to financial services-savings, credit, insurance, money transfer-is one element of human development. In this Study Microfinance is defined as a developmental concept which provides access to the so far un-served strata of the Tribal population. Microfinance provided the opportunity for the unreached segment of the mass to realize their own capabilities in terms of building their resource base what so ever be the volume which in turn capable of attracting institutional support for their livelihood enhancement. It is also very true that resources available is very scarce to continuously support such endeavors and target group is also voluminous which constantly need assistance. That is why it is very important to have integrated approach of microfinance to solve such difficulties which can ensure gradual growth & development in Socio-economic status of Tribal population in the Study.

Importance of Micro Finance

Microfinance is the supply of loans, savings, and other basic financial services to the poor. According to Reserve Bank of India 2005 Micro Finance is defined as 'Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards'.

- Microfinance paves the way to realize the internal capability of the poor to build on resources and collectiveness with appropriate grooming, orientation and hand holding support.
- It helps in freeing poor from the exploitative vicious trap of informal money lending practice to ensure safety of their asset holdings.
- Designing of appropriate microfinance structure & its effective utilisation leads to transformation in the life of socially backward & under privileged group.

II. OBJECTIVES OF THE STUDY

The general objective of the study is to examine the role played by the MFIs in transforming the tribal economy. The specific objectives of the study are:

- To examine the potential of micro finance in changing the socio-economic conditions of tribal folks in the district of Hoshangabad.
- To understand the role of SHGs (Self Help Groups) in diversifying livelihood strategies of tribal communities.
- To analyze the impact of micro finance on tribal migration.

III. BACKGROUND

Historically, tribal have been poor and backward with low levels of subsistence and poor nutrition, due no doubt to their lack of resources, low level of education and lack of adequate employment or income opportunities. Yet those tribal in the area of this study were freedom lovers & full of zeal. The area of my study is Hoshangabad district Madhya Pradesh. Hoshangabad district has an area 5408.23 km². It is bounded by the districts of Raisen to the north, Narsinghpur to the east, Chhindwara to the southeast, Betul to the south, Harda to the west, and Sehore to the northwest. The district is located on the banks of River Narmada, which adds to the scenic beauty and at the same time renders the land fertile for cultivation. Agriculture and food processing is the mainstay of the economy of Hoshangabad. In the district of Hoshangabad, the disparity is clearly seen with highly progressive and prosperous farmers as well as poor tribal farmers who seem to be totally unresponsive to any of the welfare programmes. Tribal farmers still grow indigenous crops with low yields, low marketed surplus and low farm incomes; they consequently find it hard to save. These farmers also operate on a low capital base in spite of tribal credit facilities that are available to them by MFIs.

IV. LITERATURE REVIEW

In the following text, an attempt has been made to review the available literature on various issues studied by previous researchers during the period 1992-2010 that are directly or indirectly related to the concept. The majority of tribal people depend on the informal sources of finance for meeting their livelihood and consumption needs (**Singh, 2004**). The majority of the resources used by them are informal in nature like interest free loans taken from friends/relatives though people were using MF services, too, but the share of MFIs in total money management transactions was less than 15 per cent (**Rutherford, 2003**). The major source of finance was found to be the moneylenders i.e. approximately 80 per cent of the total amount borrowed (**Sriram, Parhi 2006**). In a study conducted by **Ageba, Amha (2006)** it was found that the most of the medium and small enterprises were also using friends and relatives as the major source of finance rather than going to bank for a loan. Moreover, they found the amount of loans insufficient to meet the purpose of getting it. Therefore, they had to go for informal finance. **Alcala, Koshy (2007)**. However, people value the functioning of micro financing through Self Help groups but still they prefer informal ways of savings that reveals that inefficiency of SHGs role in inducing members to spend their loans on productive activities (**Gedenne, Vasudeven 2007**). Thus, in spite of the development of formal financial sector, people still prefer informal sources of finance, which is easily available. Many commercial banks, public as well as private, have started investing in micro financing programs as a profitable commercial activity. ICICI bank has increased its micro finance portfolio from 10,000 clients in 2001 to 1.5 bn clients in 2005. **Basu and Srivastva (2005)** Growing linkages between MFIs, banking sector and NGOs can make an effective contribution to the development of microfinance supported by regulatory efforts (**Basu 2004**). MFIs should engage in other income generating activities to lower the indirect transaction cost **Shankar (2006)**. **Field, Pande (2007)** examined the effect of repayment frequency on loan default and delinquency. **Painter, MKNelly (1999)**. Sometimes the attitude of the microfinance provider itself affects the customers' perception regarding micro financing services. Particularly, the commercial banks hesitate to provide finance to the poor people as they are considered to be non-bankable, hence, risky too. In a sample study of 10 rural bank branch managers within three district of Madhya Pradesh (**Jones et al., 2004**), the managers were found to be having the negative attitude towards their role as financial service providers. Female members also enjoy more exposure to banking services (**Verman, 2005**). In a study conducted by **Kuzilwa (2005)**, the role of credit for small business success observed a significant increase in the output and employment generation of such small entrepreneurs following their access to credit. The most important effect of micro financing services has been its contribution in reducing dependence upon moneylenders and reducing poverty (**Agricultural Finance Corporation Limited, 2008**).

Micro credit is not an effective measure of poverty reduction of the ultra poor who are already indebted (**Haque, Yamao 2008**). Micro credit is not a short-term phenomenon of poverty reduction. It must lead to sustainable increase in the poor households' wealth (**Chowdhury et al, 2005**). In a study, **Pandey (2008)** examined the awareness level of micro financing was found to be very low. It is interesting to note that the respondents were able to select the cheapest loan among the two offered to them (**Tiwari, Khandelwal, Ramji 2008**). **Women World Banking (2003)** conducted a research between 1999 to 2001 with four MFIs located in four different countries in order to measure the customer satisfaction level with regards to micro financing services. The biggest reason for the dissatisfaction among micro finance clients was found to be the insufficient

loan size. People preferred individual loans instead of group mechanism. Most of the bank staff members are males so females hesitate to deal with them.

Males are considered the breadwinners, having more traveling experiences and knowledge of the banking formalities and the investment opportunities (Singh,2004). **BL Centre for Development, Research and Action (2005)** conducted a study to assess the impact of micro finance programs on the empowerment of scheduled caste women. The study found that there had been a tremendous increase in the literacy rate among the SC women over a period. Various studies have shown that women are the better microfinance clients as compared to men. **Pitt, Khandker (1998)**

V. RESEARCH METHODOLOGY

Hypothesis

- Micro finance directly helps in transformation of the socio-economic conditions of tribal folks in the district of Hoshangabad.
- Micro Finance through SHGs (Self Help Groups) acts as a catalyst in development tribal communities.

Profile of Sample Area

According to the 2011 census Hoshangabad District has a population of 1,240,975, roughly equal to the nation of Trinidad and Tobago or the US state of New Hampshire. Its population growth rate over the decade 2001-2011 was 14.45 %. Hoshangabad has a sex ratio of 912 females for every 1000 males, and a literacy rate of 76.52 % in Urban & 54.11% in Rural areas. The Tribal Population is 23.27% of total population of Madhya Pradesh & approximately 23.24% of total tribal population in India. In spite of having highest Tribal Population district has the lowest Human Development Index in India. **Tribal communities** were characterized by a lifestyle distinct from agrarian communities, and their practices in agriculture are distinct. Today, the tribal majority areas, which overlap with the country's major forest areas, are also areas with the **highest concentrations of poverty**. Agriculture is predominantly rain fed and mono-cropped. Horticulture is marginally developed in the tribal areas with the present area under fruits, vegetables, and spices accounting for only about 2.5% of the cultivated area. **Women participate** in all agricultural operations excepting ploughing and sowing of rice seed, contributing between 70 to 80% of the total labour. In spite of favourable resource conditions, tribal regions perform poorly in terms of infrastructure, returns from agriculture and almost all human development indicators.

Data Collection & Tools Used:

Both Primary & Secondary data is used in the study to perform the research. The study has followed both qualitative and quantitative methods for understanding the impact of the study. Purposive Sampling Technique is adopted to collect the Primary data from the control and target groups. Household is treated as a unit of analysis rather than individuals or enterprise. However, secondary data is collected from various sources like journals, books, manuals, and reports of the state concerned for literature part. Data collected both from primary and secondary sources have been interpreted with the help of statistical devices.

Respondents Covers:

- 12 villages in 8 Blocks, 03 districts(Hoshangabad, Raisen & Sehore), representing Tribal Zones (Questionnaire)
- Household Survey – 100 HHs (Focussed Interview)
- Focus Group Discussions – 10 (Purposive Sample)
- Expert Consultations – 05 (state and district levels)
- NGOs and Sarpanch Interviews.

Findings of the study

- The impact of microfinance on the income, saving and employment is hopeful.
- The expenditure pattern reveals higher level of expenditure by the target group .
- However, expenditure on the consumption of alcohol is significant.
- The issue of indebtedness is major as tribal population is largely dependent on friends, relatives and other local informal source of money lending.
- There were fifteen questions in the interview schedule with three possible answers – yes, no and don't know, indicating whether they agreed, disagreed or were undecided. Most of the questionnaires were unresponsive as they were hesitant to give information on the required format so personal observation & interview was adopted to gather information
- Microfinance also acts as a catalyst in the livelihood diversification among the tribal folks.

- Women empowerment is possible through Micro Finance as they constitute their own SHGs and also interested in entrepreneurship, which ultimately elevates their status in the economy.
- It was found that microfinance institutions must link the employees' incentives to profit and there should be enhancement in the no. of groups per sq. km in district of Hoshangabad.
- Respondents who are aware of Micro Finance schemes, focus on keeping the repayment frequency lower, provided the repayment rate remains the same.
- In the matter of economic empowerment, reduction of poverty and social empowerment, the beneficiary households claim positive changes, yet, miles to go to mainstream them.

Limitations of Data

Most of the data is available at the national level. It is difficult to gather data about the economic and financial requirements of the tribals in the deep interior areas. Illiteracy among the tribals and lack of willingness to divulge the details act as major impediments for the researchers in compiling data. The data on the amount of loans dispersed does not establish a relation between the recovery rate and the period of the loan. Availability of separate data for the tribal concentrated areas is inadequate. Moreover, the data on credit dispersed to women is very limited, due to the social backwardness of women in rural areas and lack of accessibility to them. The data on different purposes for which the loan is utilized is not available at a large scale.

Recommendations & Suggestions

The present study is an effort to examine this unattended area through the institutions of microfinance. Data deficiency and non-availability of reliable literature had been a major constraint in the pursuance of this study an attempt has been made to examine the Micro finance institutions and the Self help Group's role in examining the case of scheduled tribes has been undertaken. Following are a few of the suggestions that may help the various stake holders of microfinance to make it a success:

- Commercial banks will definitely lead to good financial governance by adding microfinance services in the spree of existing financial services.
- MFIs need to be brought at par with Non-Banking Financing Companies (NBFC).
- More efforts are required to spread awareness among people regarding the micro financing services available and their uses.
- The beneficiaries should also try to build a trustworthy relationship with the finance providers.
- Microfinance may strengthen the traditional, social and entrepreneurial roles, thereby, earning women greater respect and honor in society.
- Moreover, they should understand the benefits of forming Self help groups and develop the culture of mutual trust and cooperation within the group.
- A co-partnership with the existing money lenders could be ventured into, to include them to become a part of the formal financial system.
- The NGOs should act as a facilitator and motivator to constructively mobilize the savings of the people and canalize into productive purposes of common benefit to the group.
- The activities in the villages are connected with export trade to generate sufficient surplus for repayment and expansion.

VI. CONCLUSIONS

It has been observed in the Study that micro financing is a commendable effort. The micro financing services would surely lead to achieve the motive of poverty reduction. However, Government efforts alone cannot solve the problem of financial inclusion without the cooperation of the banking sector particularly, in the developing nations like India, where most of poor people do not have access to any kind of banking services. Commercial banks will definitely lead to good financial governance by changing their conventional attitude towards the poor that they are bankable as their good repayment behavior is evident through various studies (especially women beneficiaries). Further, cooperation and collaboration among the formal and semi-formal financial sector is must for meeting the target of 100 per cent financial inclusion. More efforts are required to spread awareness among people regarding the micro financing services available and their uses. Moreover, they should understand the benefits of forming Self help groups and develop the culture of mutual trust and cooperation within the group. If used in its true spirit, micro financing truly a powerful instrument for economic and social transformation of Tribal in these areas. Thus, microfinance is surely a medium to uplift the poor from below the poverty line and remove them from the shackles of deprivation to self-sufficiency and independence.

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