ROLE OF MICROFINANCE IN TRIBAL DEVELOPMENT:
A REVIEW OF LITERATURE

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ABSTRACT

The present study is an attempt by the authors to understand various gap areas of microfinance for the future research in the said subject. For this more than 41 reviews were made and those are pertinent to the topic of research are included in this paper. Most of the studies were done on microfinance, however no substantial studies have been made on the tribal development.

KEYWORDS: Microfinance, SHG, Poverty & Empowerment.

INTRODUCTION

Agriculture used to be the mainstay of the economy of India. For the greater part of the 20th century, it was agriculture whose contribution to the GDP of the country was highest. Same was the case with Odisha. All that has changed. The Economic Survey Report of Odisha 2012-13 shows that the share of agriculture in Odisha’s GDP is on a decline and it is hovering around 17% at present. The highest contribution to the GDP of Odisha, 58%, is by the Services sector. This goes to prove that ‘Land’, which is the main resource for agriculture, is no more the key to economic stability. In other words, there is ‘Life beyond Land’ in the 21st century. Land is, in a way, a depleting source of asset. It is so because while the supply of land remains unaltered, the size of population is constantly on the rise. Therefore land cannot be allotted to each inhabitant of the tribal communities or to the economically vulnerable for cultivation, so that his/her economic conditions develop. What can definitely be provided instead is ‘Finance’ – by the
formal institutions at affordable costs. And when it is the economically vulnerable person, giving finance in the hands of a Group of such persons is anyday advisable than giving it in the hands of an Individual. Because, in that case, no single person can deploy such finance in the way s/he pleases. Collective intelligence is anyday less susceptible to failure than the intelligence of an individual. This the idea on which microfinance by way of group lending, through the SHGs, is based.

The target of financial intermediation in the group lending method through SHG-Bankslinkage is socio-economically deprived segments of the population of India who live in dismal poverty. The aim of microfinance is reduction of poverty. The poor people, in a country like India, live mostly in its rural areas. They are not necessarily always people of scheduled tribe communities. Quite a few empirical studies have been undertaken in India to analyze the role of microfinance in the life of the rural poor, which includes rural inhabitants belonging to scheduled castes, scheduled tribes and general category. Therefore not very many studies are found focusing on the role of microfinance specifically in the life of people belonging to scheduled tribes only. The target group of such studies have been, by and large, the rural poor. And ‘rural poor’ includes people of scheduled tribes among others. Likewise, ‘rural areas’ in those studies cover the hilly and forest tracts, usually inhabited by various tribal communities.

K.G. Karmakar (1999) in his work “Rural credit and Self Help Groups: Microfinance needs and Concepts in India”, examines the existing credit delivery system in India with special reference to the credit needs of the rural poor. He studies the importance of the micro-credit needs for tribal women in rural areas and the micro enterprises in the non-farm sector in Odisha. The study focuses on the availability, credit requirements and the problems faced by the tribal people in availing of it. He feels that the setting up of micro-enterprises particularly in the non-farm sector would go a long way in reducing poverty in rural areas. According to him, the micro-credit approach through SHGs would be the only best mechanism to deliver credit to the rural poor.

Puhazhendhi and Satyasai (2000) assessed the living conditions of SHG members after they were linked to banks. Their study covered 560 households in 223 SHGs encompassing 11 states. These states spanned over central, southern, northern, western and eastern regions of the country. The findings noted that the impact of the post-linkage period was reflected in an increase of self-worth, better communication ability and increased awareness of social evils.

N.P.Y. Raman (2000) in his work “Self Help Groups : The Kerala Experiments” shares his research experience with the Kerala-based Primary Agricultural Cooperative Societies (PACS) extending credit to SHGs. PACS of Kerala had provided financial assistance to both SHGs and others (that is, individuals not attached to SHGs) for the same purpose. Recoveries of those loans from the SHGs was far better than from those who were not members of any SHG. He advocated in his study that the SHG mode of formal institutional finance to the rural poor which is backed by government interest subsidy, is playing a role in reducing poverty. The SHG route of funding, he opines, has proved beneficial to the PACS too, as incidence of non performing assets (un-recovered loans) has declined.

K.R. Lakshmikandan (2000) in his study titled “Self Help Groups in the life of Rural Poor – A Philibhit case study” covered 74 SHGs, out of which 57 were all-women groups and 17 all-men
ones. Membership of all these Groups consisted of small land-holders and agricultural labourers. Only 11 of them were disbursed loans by Bank of Baroda, the Lead Bank of the district, amounting to a lowly Rs 20,000/- to Rs 30,000/-. The useful ways in which those SHGs had deployed the funds, made him observe that avenues for entrepreneurial development are very much a reality in the far flung rural regions, if and when SHGs are provided the much needed capital support by financial institutions by way of loans.

Dadhich C.L. (2001) in his work on “Microfinance: a panacea for poverty alleviation” analyzed the performance of SHGs formed by Oriental Bank of Commerce for micro lending and underlined that this project of the bank has established beyond an iota of doubt that meticulously designed and effectively implemented microfinance can be a means not only of alleviation of poverty and empowerment of women but also a viable policy measure for rural development. There is, however, always a scope for further refinement of this program. He is of the opinion that the increasingly proactive role-play of Reserve Bank of India, the central banking authority of the country, in this area will surely facilitate further expansion of microfinance in India in the days to come.

Sabyasachi Das (2003) in his paper entitled “Self Help Groups and Micro Credit : Synergy Integration” opines that the phenomenal growth of SHGs in the recent years indicates that the weaker sections of the society are capable to sharpen their micro-entrepreneurial skills with the help of their own savings and that additional timely bank credit. Micro credit is an alternative source of credit for the poor who, earlier, were considered non-bankable. The system not only provides credit, the single most crucial input for development, to the poorer segments of the society but also aims for their capacity building. The system has also proved that Group Lending has a distinct advantage in the form of excellent recovery rate and improvement in income level. He concludes stating that micro credit-SHG integration could be the only way forward for rural development vis-à-vis poverty alleviation.

Archana Sinha (2004) in her article “Microfinance for Women’s Empowerment: A perspective” puts forward a debate on microcredit for discerning policymakers, researchers and development practitioners. She says that understanding the viability of microfinance requires a comprehensive analysis from the right perspective. She continues to say that microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programs. According to her, the challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrowers without imposing unbearably high cost of monitoring its end use upon the lenders. She is of the view that a promising solution is to provide multiple purpose loans or ‘composite credit’ for income generation, housing improvement and consumption support.

Mrs M. Selvachandra (2004) in her paper “Microfinance through Self Help Groups” concludes that banking through SHGs and the existing decentralized formal banking network, allow for a large scale outreach of microfinance services to the poor in India. These banking services, she observes, are made available at low cost, easy accessibility and flexibility to meet the needs of the poor. She avers that the proper promotion of the scheme will be a big help to drive away poverty from the country. Thus the SHG-Bank linkage is a boon to the poor and at the same time a via media for the banks to expand their outreach to a large number of beneficiaries.
K. Manoharan Nair and Girija\textsuperscript{9} (2005) in their article “Microfinance – The New Development Paradigm for Poverty Eradication and Women Empowerment” state that experience has shown that many of the poverty alleviation programs through organized credit channels in the past have not achieved the required success. Hence, they are of the view, to bridge the gap between the demand and supply of funds in the lower rungs of rural economy, the microfinance schemes of the National Bank for Agriculture and Rural Development (NABARD) have made a smooth foray into the domain of micro credit in eradicating poverty and empowering women to manage their own enterprises.

Bibhudatta Nayak\textsuperscript{10}(2006), concludes in his study entitled “Socio Economic Change in KBK Region Through SHG-Bank linkage Programme” saying “SHG-Bank linkage programmes empowered the rural women with dignity, identification, recognition and respect. They were able to save, borrow, invest and earn. The male members and other members of the family changed their attitudes towards women folk with the SHG movement taking off in rural areas. The rural poor who remained always in the borrowing domain could find themselves with surplus and on lending side probably because of the magic of microfinance and the group approach under the SHG-Bank linkage programme. Credit became easily accessible to the members without the rampage of money lenders and hassles at banks. This created a sense of ability and willingness-to-perform among women.”

KalavatiKamble and Gangadhar B. Sonar\textsuperscript{11}(2006) in their work “The Role of SHGs in Women Empowerment: A Study on Selected SHGsPromoted by Voluntary Organizations in Gulburga District of Karnataka” observe that the socio economic conditions of the SHG-women are increasing to a significant level irrespective of their different backgrounds. Earlier they were confined to home and not exposed to the society and were a part of the traditional system. Now, the authors find, they can come out and approach the government machinery, conduct meetings, put their signature on deliberations made and, most importantly, have a good amount of money in their hands. They are of the view that SHGs are mostly focused on financial aspects rather than social ones and that this trend is pronounced in the SHGs promoted under government-led programs. A clearly emerging trend is, they aver, SHGs are increasingly attracting the younger generation – the generation that not only needs social and economic empowerment but also assertive capacity, freedom from atrocities and a new self image to claim themselves as fully human.

N.V. Namboodiri\textsuperscript{12}(2006) in his work entitled “Financial Intermediation in the Dynamics of Rural Economy” espouses the role of financial intermediation of SHGs in rural economy and asserts “The SHGs shall no more be seen as only a cost effective delivery channel for the banks to reach the rural poor. Instead, it is necessary to acknowledge their ability to mobilize resources, undertake income-generating activities both individually and collectively, control over economic resources, build linkages with other organizations for their financial and other services. What is intended here is to demonstrate the decisive role played by such financial intermediaries in achieving upliftment of the poorest of the poor in the rural areas through group-based approach. The role of intermediary is very critical in the sense that majority of the rural folks have hardly any asset base and therefore undertaking any viable economic economic activity at the individual level is very remote. Under such conditions, the first and foremost step of an MFI is in
identifying appropriate economic activities at the group level which suit the local conditions and are feasible with the target group”.

Navin Bhatia and Anju Bhatia\textsuperscript{13} (2006) in their work entitled “Financial Institutions as Change Agents for Rural Development” examined the political potential of micro credit delivery in the Group mode and observed that “The political potential of group finance is also being realized now. SHGs are solicited in order to facilitate the participation of women in local political life; the use of SHGs as voting banks was a source of controversy during the weeks preceding the national elections of 2004. In the last local elections organized in Tamilnadu in 2001, as many as 2,612 women members of SHGs were elected. While on the one hand, this has dangers of Groups falling into the hands of political parties, on the other hand, it may also lead to a strengthening of the democratic process in the country”.

Navin Bhatia and Anju Bhatia\textsuperscript{13} (2006), in their same study visualize a bright future for rural development in India in the Group-financing method when they state “Thus, the potentialities in financing to groups in rural areas go far beyond economic considerations. Group financing has the potential to unleash multi-dimensional change in the lives of people. The financial system is destined to perform the functions of a change agent in this task. However, in doing so, while formal financial institutions may have to change their methodologies to cater to this need, MFIs would need a suitable enabling environment to function effectively. There may have to be a convergence between the formal financial institutions and MFIs. The specific needs of rural people and the inadequacies of the institutions and processes that are available may also give rise to new institutions or models in the coming years”.

Shibalal Meher\textsuperscript{14} (2007) in his study entitled “Impact of Micro-Finance on Poverty: A Study of Self-Help Groups in Orissa” states “The findings from the present study show that SHGs have the potential to tackle poverty and can be an important weapon for poverty alleviation in Orissa. The study shows that there is increase in income and assets and reduction in the level of poverty as a result of intervention through SHG based microfinance. The net impact of borrowing on income is positive not only in case of all the borrowers but also in case of the poorest borrowers, showing the better outreach of the programme. However, certain shortcomings are observed. Though there is positive impact on poverty, the process of empowerment is poor. Since these are women groups, the lower empowerment can lead to the failure of the programme in the long run.

M.A. Lokhande\textsuperscript{15} (2008) in his work “Socio-Economic impact of Microfinancing Through Self Help Groups in Marathwada Region” observes that microfinance for micro enterprises can be one of the most effective poverty reducing instrument. The need of the hour is to promote more and more microfinance institutions and strengthen them, so that they provide more service to the needy poor people. These tiny business activities can be started mostly based on local resources. In order to give impetus to micro entrepreneurial activities by poor people in rural as well as urban areas, microfinance institutions should be promoted to provide adequate, regular microcredit to the needy entrepreneurs. He is of the conviction that microfinance programs is the most promising strategic weapon for attacking poverty by way of providing development funds for the neglected groups.
Sukhbir Singh\textsuperscript{16} (2008) in his article “SHG-Bank Linkage Programme: Progress and Prospects” states that the involvement in the Group significantly contributed in improving the self-confidence of the members. The feeling of self-worth and communication with others improved after association with SHGs. The members were relatively more assertive in confronting social evils and problem situation. As a result, there was a fall in the incidence of family violence. There has been considerable gains on the socio-economic front.

H.R. Dave\textsuperscript{17} (2008) observes in his article “SHGs and Savings Mobilizations” that what makes the SHG-bank linkage programme design unique is its heavy emphasis and reliance on mobilization of savings. Members have to save a fixed amount regularly. From the demand side, the savings pooled give the group the required strength to leverage and negotiate higher resources from the banking system in the form of loans.

N. Srinivasan\textsuperscript{18} (2008) notes in his study entitled “Sustainability of SHGs” that as a financial services delivery model, the Self Help Group approach is unique; it has emerged as a clearly superior model compared to the Grameen bank or MFI models. By emphasizing savings before credit, it takes care of both the legs of basic financial services. People’s participation is fully enable groups to access loans as also keeps their savings safely.

M. Ramakrishnayya\textsuperscript{19} (2008), the founder chairman of NABARD, records his optimism in his ‘Foreward’ to “Microfinance in India” saying “Microfinance in the form of bank SHG linkage model has been able to inspire hope in the lives of thousands of rural people, women in particular, and also enable them to contribute to their families’ well-being, through their savings and enterprise. For banks, it is a business opportunity and for bank officials, it is an opportunity to extend their rural clientele without much risk, as the recovery levels exceed 95 per cent. The SHG members of today could turn out to be clients for several financial products over the years!”.

Debadutta Kumar Panda\textsuperscript{20} (2009) in his work “Impact of Microfinance on the Rural Households: Empirical Evidence from a Coastal District of Orissa” records his findings stating “The microfinance intervention in coastal regions of Orissa was found positively impacting the rural households in their income, assets creation and consumption pattern. There was an increase in monthly income(12.81 per cent) and monthly expenditure (2.09 per cent in food, 113.76 per cent in entertainment, 22.80 per cent in education, 3.97 per cent in productive assets and 40.32 per cent in social obligations) due to microfinance intervention. The increase in the monthly household income was the highest for village traders, followed by farmers, handicraft artisans and rural entrepreneurs respectively. The treatment households had a greater increase in their expenditure on entertainments. The income and expenditure patterns had registered only a small change, and the reasons might be that the period of microfinance intervention was less than 24 months (17.57 months), and small size of the loan (Rs 20,050) as the microfinance programmes yield optimum impact after having intervened for some time which could be of 4 to 5 years. The increase in productive assets was also less (3.97 per cent) which might be due to small loan size”.

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