



GROWTH OF MICROFINANCE IN INDIA AND ITS IMPACT ON ECONOMIC DEVELOPMENT

(CASE STUDY OF NILGIRI DISTRICT IN TAMIL NADU, INDIA)

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(Under guidance of Mr. N Venkatesh, CEO, IIFL Samasta Microfinance)

Objective

To study the growth of Micro Finance Industry in India and primary assessment of its impact on economic development in a sample district.

► 1. Summary

The research work has been done under the guidance of Mr. N Venkatesh, CEO of IIFL Samasta and with active support of company officials in the district of Nilgiri, Karnataka. It involved secondary research based on material and information available on the industry, data from MFI industry association and company annual reports. It was then followed up by personal interviews, video recording with consent (only one customer interviewed refused to be video recorded) and discussion of analysis and report with the guide.

Microfinance Industry (MFI) refers to a range of financial services from savings to loans, to under-privileged people with little access to formal banking services. In its current modern form, the industry owes its origin to Muhammad Yunus in Bangladesh in the late 1970s through the Grameen Bank. Today, the industry operates in several countries, primarily meeting credit and loan requirements of poor and marginalized people for income generating activities. MFI has been greatly successful in generating employment specially for women and thereby making them independent and empowered. It has alleviated poverty and helped in skill upgradation as well. Over period time, as MFI lending is typically to a group of women, jointly and individually responsible to repay, it has helped in community development as well. Interestingly, repayment track record of MFI is fairly good under normal circumstances. It shows that if borrowers are successful in generating more income, they pay on time. I personally visited and interviewed a few actual borrowers in a distant district of Nilgiri in the state of Karnataka. Almost all the people (mostly women) I met, confirmed that MFI has helped them generate higher income and live a better life. A few did mention that interest rate should be brought down.

► 2. Introduction

Microfinance refers to a range of financial services, including loans, savings, and insurance, available to poor or low-income individuals or groups who are unable to access these services from mainstream banks. This report analyses the role of microfinance institutions (MFIs) in economic development, particularly in low-income regions, and debates its effectiveness and potential drawbacks. We conducted a primary assessment of microfinance's impact on economic development of beneficiaries in the Nilgiri district through multiple beneficiary interviews and survey across locations like Manjoor, Ithalar and Ooty besides interacting with microfinance industry professionals. The findings imply that microfinance has been able to uplift marginalized sections of the society in Nilgiri district from the shackles of poverty and has been instrumental in women empowerment. Other benefits attributed to microfinance are skill development, increased income, financial inclusion and access to health and education.

▶ 3. Background

The concept of microfinance was popularized by Muhammad Yunus in Bangladesh in the late 1970s through the Grameen Bank. It emerged as a tool to combat poverty by empowering marginalized communities to engage in income-generating activities. Before the creation of Microfinance Institutions (MFI), bank loans were unavailable for poor people, and money lenders exploited many of the underbanked (da Silva, 2007) especially in developing countries. In addition to pure financial support, microfinance spreads the idea of democracy and human rights, and aims to improve women's social status (Chaudhry, Nosheen, 2009; da Silva, 2007; Montgomery, Weiss, 2011). In terms of quality of life, MFIs cater to health and education of the borrowers' families as well. For instance, Montgomery and Weiss found a positive co-relation between better medical treatment, nutrition and education for the borrowers' families. The significance of microfinance has increased since the Covid pandemic broke the economic cycle across the world and pushed 71 million people into poverty (World Bank 2022). India, which made significant strides in poverty alleviation in the first two decades of the new millennium, was also affected by the pandemic, which hit small entrepreneurs hard as they not only lost their livelihoods, but also had difficulty in accessing formal sources of finance. Microfinance was again seen to have helped marginalized communities since the pandemic.

▶ 4. Role of MFIs in Economic Development

4.1. Employment Creation: Microloans enable beneficiaries to start or expand small businesses, leading to increased employment opportunities. Multiple studies and industry surveys indicate that borrowers use their microloans primarily for productive purposes like setting up small businesses or expanding them, thereby giving creating employment.

4.2. Women Empowerment: A significant portion of microfinance clients are women. Access to financial resources boosts their economic independence and status within the family and community. International Labour Organization (ILO) has found positive outcomes of microfinance on women empowerment both directly by supporting them financially and their businesses and indirectly by improving their status in many patriarchal societies. (ILO, ADB).

4.3. Savings & Financial Security: MFIs often encourage a savings culture, providing a safety net for families during emergencies. This has been widely reported across Asia and Africa. Microfinance improved economic status of the borrowers and makes them financially literate introducing them the savings and other wealth creation products. (Solomon Menza).

4.4. Skill Development: Along with financial services, many MFIs offer training programs in entrepreneurship, financial literacy, and skills enhancement. (Ranjula Swain).

▶ 5. Effectiveness of Microfinance:

5.1. Poverty Alleviation: Numerous studies indicate that beneficiaries of microloans experience upliftment in their living standards, health, and education. Microfinance is also mostly the only source of funding for unbanked and underbanked borrowers, and their only chance to break the cycle of poverty. (Pawan Bhura, Ashutosh Jha) and (Yatia Yasmin Javid).

5.2. Improved Repayment Rates: Compared to traditional banks, MFIs generally have higher loan repayment rates, indicating the success and sustainability of borrowers' enterprises. Since they borrow as a part of a community, there is higher social trust and moral obligation. Many studies also show women borrowers are even better at repayments. (Nabawiyah Abdul Hadi) and (Mohammad Zainuddin).

5.3. Community Development: Many microfinance projects come with community benefits, like improved infrastructure, schools, and health facilities. Particularly in projects done in partnership or under the umbrella of non-government organization and multi-lateral agencies.

► 6. Impact of Microfinance in economic development

Success stories from mountainous Nilgiri district of Tamil Nadu (based on primary survey)

A survey and study was done with company officials, about impact of microfinance among vulnerable tribal, scheduled caste and underprivileged minority population in mountainous Nilgiri district of Tamil Nadu, which is situated at an average altitude of 2000 meters (6,600 feet). Nilgiri is named so because of the blue coloured mountains that spreads across the borders of Tamil Nadu state, Kerala state and Karnataka state of India and is a part of the larger Western Ghat mountain range. We visited multiple locations (Manjoor, Ithalar and Ooty) in the district and did a primary survey interacting with mostly scheduled tribe and scheduled caste beneficiaries of microfinance. Nilgiri district is home to primitive tribes, namely Todas, Badagas, Kurumbas, Kottas, Irulars, Kattunaickas and Paniyans. Most of the tribal groups in Nilgiri are considered as particularly vulnerable tribal group (PVTG). Since the turn of the 21st century, the Badagas have numbered about 135,000 (18% of the district population), the Todas are barely 1,500 and the Kottas just over 2,000. Most of the tribal population is skilled in producing some kind of ethnic product like textiles, shawls, stoles, bags, wooden craft etc. Many of them are also involved in agriculture and tea cultivation. Other beneficiaries we studied were into small businesses including small restaurants, bakeries, provision stores and even medical store. Our survey also covered the minority Muslim and Christian population.

6.1 Success stories:

Bhagyawati, 52

Bhagyawati used to have no regular source of income and was involved in odd businesses or contract labour work. Without access to formal credit and growing age, Bhagyawati was worried about income opportunities. After being introduced to microfinance loans four years ago, Bhagyawati started a small restaurant. The microfinance loan is used to pay rent and buy raw materials for the restaurant. Her business has been increasing steadily, due to its proximity to highway and plantations. Tourists, local farm workers and tea plantation workers are her customers. Due to success of the venture, she regularly takes microloans to expand her offerings. With the additional income she not only has repaired her house but also supports her family of five. Her husband who was a labourer has also joined her in the restaurant venture.



Sujata, 35



Sujata was a labourer who depended on cyclical employment opportunities until she was introduced to microfinance five years ago. Initially, she rented a small farmland for carrot farming. As she became successful, she rented more land and added beetroot as a crop. Over the next three years, she accumulated some surplus income and opened a small provision store in her village. The income supports her family of seven and she is able to send two of her children to school.

Leela, 55



Leela belongs to Badaga tribe and is one of the oldest beneficiaries of microfinance. She is a proud owner of milch cows through long-term access to microcredit. Leela is a supplier of milk in her locality and to dairy cooperative operations. She understands dairy management and market linkage very well. She is also well versed with benefits of microloans and other financial products due to her access to credit for a longer period and also a mentor to many younger women small entrepreneurs by introducing them to the benefits of microcredit. At least nine Badaga tribal women we interviewed were inspired by Leela to take microcredit and start business and increase income. Leela also advises local women about various basic entrepreneurial skills to succeed. Leela is an example of long-term benefit of microfinance in economic and entrepreneurship development.

Revathy, 28

Revathy is one of the most successful micro-entrepreneur stories. Coming from not so privileged background and limited education, she was left with not much choice. But, she believed in herself and took a microloan to sources raw materials to prepare handmade chocolates five years ago and found some success. Inspired by initial success she decided to expand and set up a shop on one of the busiest streets of Ooty town. She again took microfinance loans to fulfil her dreams. She also found a partner to expand her business and has been on a roll since then. Now she sells multiple varieties of handmade chocolates, many of them created keeping international standards in mind. She also stocks bakery items, attar (locally made perfume) and sees good footfall primarily from tourists visiting Ooty.



Rekha B, 37



Rekha. B has set up a medicine and general store after doing odd jobs for many years. She was introduced microcredit five years ago and has since then taken microloan on a regular basis to rent and start her own medical and general store. She has also taken loan to expand her store over the years and add stocks. Rekha is well versed with the microcredit system and other financial products besides accounting and many government regulations which she learnt as she started her business. She understands the importance of a good credit score and timely repayment. She believes microcredit will help her to expand her business further and expects her children to do higher studies and have a brighter future.

V. Radha, 52

V Radha, is an old microfinance borrower and is sustaining a successful eatery frequented by tourists and local workers. V Radha is a disciplined borrower and has an excellent repayment rate over the last ten years. She has inspired many local women to start their small businesses with the help of microcredit. She said that microcredit has helped her to break her poverty cycle and helped boost her income significantly. She said that no access to formal banking system for underserved people like her is a major obstacle in setting up their small businesses. She believes microfinance has helped in fulfilling her entrepreneurial dream.



Manimeklai, 38 and Thaiyamal, 47



Manimeklai and Thaiyamal were labourers in tea plantations and were doing different odd jobs before having access to microfinance loans five years ago. Since then Manimeklai has rented 1.5 acre of tea plantation and Thaiyamal has rented 2 acre of land for carrot farming. They have increased their income by over 100% in the last two years and been sending their children to school and one to college also. They said this

has improved not only their income but also made them understand many aspects of business, opening bank account and basic understanding of some financial products.

Preetisin, 32, Povanidhi, 48 and Kavinil, 39

Preetisin, Povanidhi and Kavinil are members of Toda tribe and are expert weavers of Toda textiles. However, they had no access to credit to procure raw materials on a regular basis and market the same. They were forced to take up odd jobs to support themselves and their families. However, after getting access to microfinance loans they have become part of an all women association and source raw material for weaving and sell them to customers in Ooty, Coimbatore and other nearby cities. They said, they have easy access to credit, sustainable income and ability borrow larger amount to grow their business. They are sending their children to school and are able afford healthcare.



Sairabanoo, 48



Sairabanoo has fulfilled her dream of becoming a successful baker after she took micro loans. She has been a long-term user of microcredit and has increase her business significantly over the last five years. Earlier she used to sell baked items from her home. After receiving micro loans on a regular basis now her bakery has become large and located in a prominent location in Ooty town, allowing access to many customers. She has employed seven people for baking operations, accounting and delivery. Sairabanoo believes microcredit has introduced her to financial literacy. She is able to support her nine-member family with the bakery.

Pradeepa, 32

Pradeepa and her husband were doing odd jobs and was dependent on cyclical employment opportunities for livelihood. After having access to microcredit Pradeepa has rented a piece of farm land and is doing strawberry farming. Despite owning a small piece of land Pradeepa is using modern agricultural techniques like tissue culture and efficient water management, which is allowing her to have higher productivity. Pradeep is also part of a collective which helps her market her produce and train her in advanced farming methods. Pradeepa said, access to microcredit allows her to sustain her farm and earn regular income.

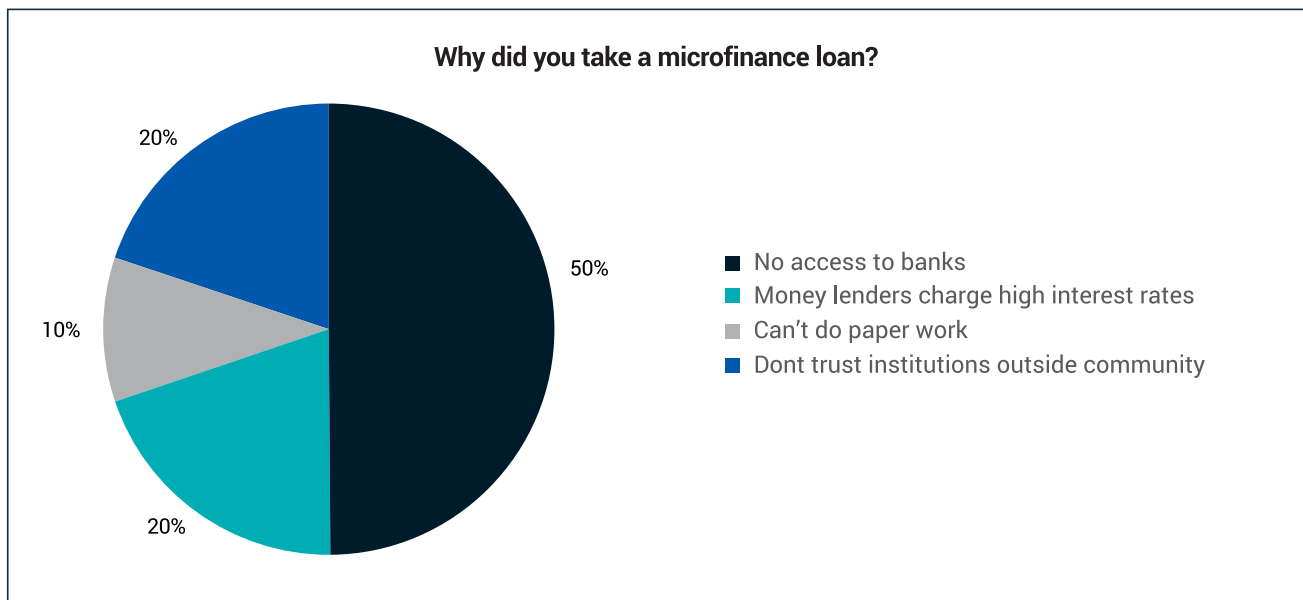


She also does Toda textile weaving in her spare time to supplement her income and support her family of five.

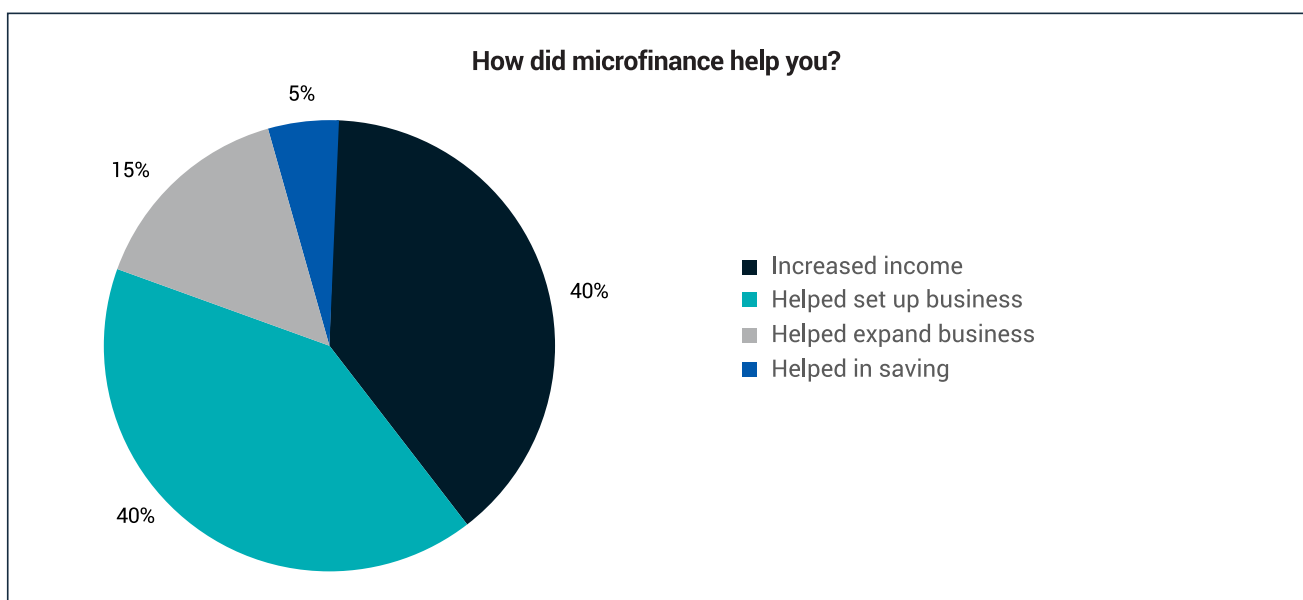
► 7. Primary Microfinance impact survey – Findings from Nilgiri district in Tamil Nadu

As per our survey of 50 women borrowers in Manjoor, Ithalar and Ooty locations in Nilgiri district, majority of borrowers believe that microfinance helps in setting up new business, increase income and helps access to health, education and business expansion. During interviews, most agreed that microfinance besides helping them with credit allowed them to understand more about finance, savings, government schemes and entrepreneurship. We also interacted with microfinance loan providers. There are prominently three microfinance lenders present in Nilgiri. We interacted with Samasta Microfinance, which operates a branch with a radius of 25 kilometers and have over 2200 customers on an average in the catchment area. Each branch employs about 10 local members of the society with a branch manager at the top, an assistant branch manager and a branch credit manager besides multiple customer relationship managers and collection officers. The highest loan offered to customers is up to Rs 80,000, which can be topped up by another Rs 35,000 after three timely repayments. Most employees are from local communities which allows to build trust and helps in credit penetration in underserved areas. Some of the findings are in charts below

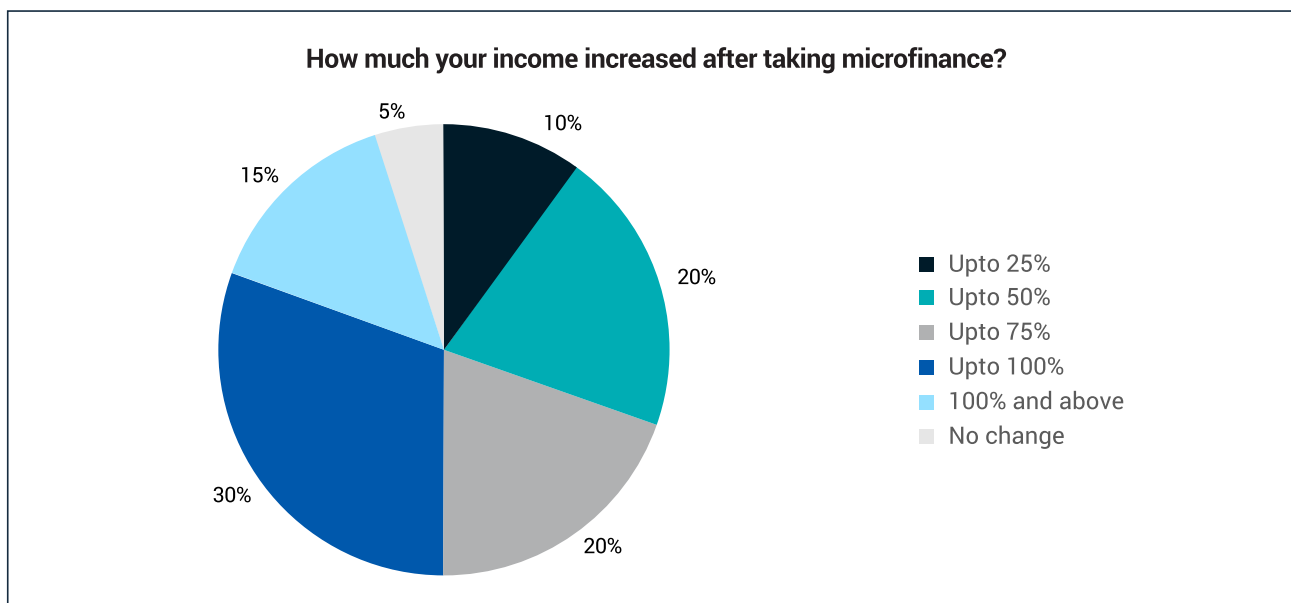
Primary reason for taking micro-finance is no access to banks



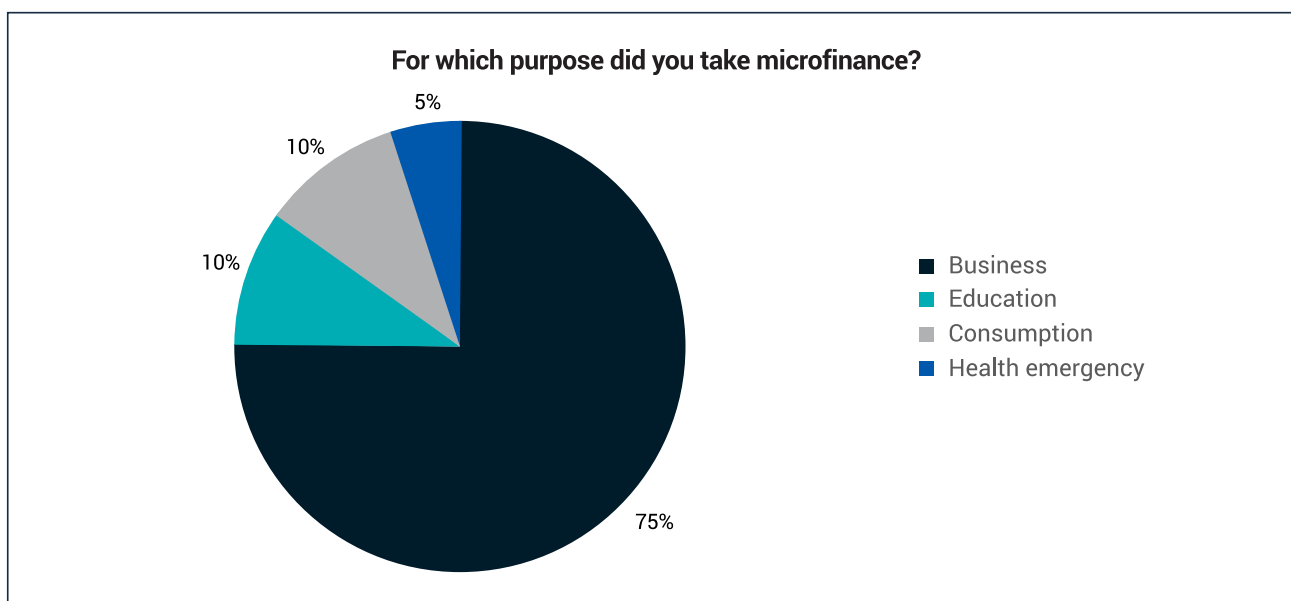
Micro-finance helps in increasing income levels



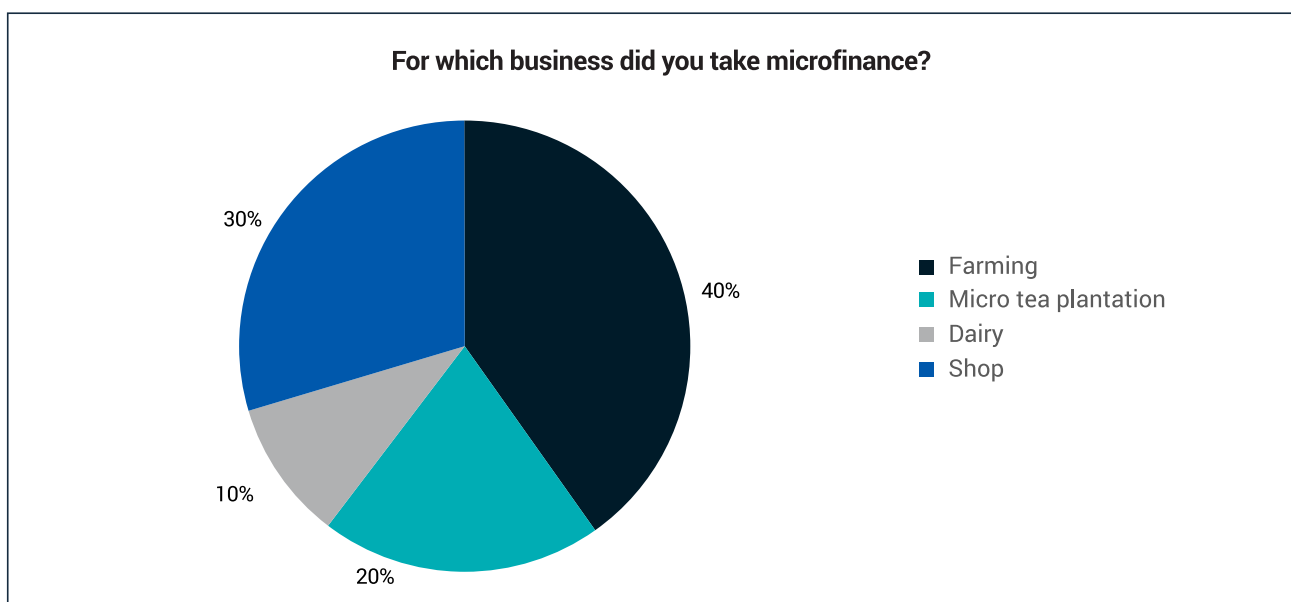
Micro-finance contribution has helped in doubling income levels for many



Micro-finance is taken primarily for business working capital



In surveyed district (Nilgiri), the main business is farming



Conclusion:

Microfinance, without a doubt, has played a pivotal role in providing financial access to millions in low-income regions, leading to positive economic and social outcomes.

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