

The Myth and Reality of Promoting Micro Enterprises Through Micro Finance: - A Study in Hassan



Commerce

KEYWORDS : Micro Credit, Micro Enterprises, Trends in Micro Finance, Income Generation to Rural Poor)

HEMALATHA S

M. Com (Final) Student, Department of Studies in Commerce, Post Graduate Centre, Hemangotri, University of Mysore, Hassan

PUNEETH

Assistant Professor, Sri Nataraja Residential First Grade College for Women's, Mysore

MAHADEVPRASAD

M. Com (Final) Student, Department of Studies in Commerce, Post Graduate Centre, Hemangotri, University of Mysore, Hassan

ABSTRACT

Micro finance in general and micro credit in particular has become a much sought after tool for financial inclusion. It has been well demonstrated through many studies that micro finance has helped the socially and economically less privileged groups, especially in rural areas in terms of reduction of poverty (Mayoux and Hart, 2009) access to social needs such as education and health (Ashe and Parrot, 2002) as well as empowering women (Zaman, 2001; Kay 2003). Even though there are evidences to the contrary that micro credit has increased the debt burden of the rural household and even subjugated women for greater miseries of additional financial responsibilities etc, (Zaidi, 2007, Bali and Swain, 2006) micro finance has certainly been on an expansion mode. Varied types of micro finance institutions have emerged and it looks that there is still an untapped market for micro financial services in the country.

INTRODUCTION:

In the Era of 21st century micro-finance has drastically changed from last 5 decades and its contribute more to the countries development specifically in least developed countries(LDC's). It reduces the burden of poor people in the name of high rate of interest and exploitation from the money lenders and its helps reduce their poverty level and increase the standard of living. Micro-finance has assumed a special significance in the context of increase emphasis on the rural development. This sector has been growing at a rapid rate in internationally. The United Nations, by declaring the year 2005 has micro credit year brought micro finance on priority agenda of various government and donor agencies. Professor Muhammad Yunus got Nobel Peace Prize on 2006 for his work on micro finance in Bangladesh will not only boost the sector but also inspire government, banks, voluntary agencies and individuals to strengthen and expand the micro-finance sector towards women empowerment.

STATEMENT OF THE PROBLEM:

One of the stated objectives of microfinance is the support it provides for micro enterprises. Going by the experience of Grameen Bank in Bangladesh, the needs of rural people to undertake an income earning activity is not much and hence could be effectively catered to through micro financing. Activities such as animal husbandry, floriculture, food processing, retailing etc., could be done through relatively small investments. It is therefore assumed that micro finance is an effective and cost efficient method of promoting micro enterprises. However, there is no adequate data support to substantiate this claim. Therefore this paper proposes to analyse the trend of emergence of micro finance enabled micro enterprises with the case study of a specific region

OBJECTIVES OF THE STUDY:

This study envisages analyzing the trend of financing by micro finance institutions to promote micro enterprises. The specific objectives of the study include the following;

To examine the trend, in terms of number and size of funding, of financing of micro enterprises by micro finance institutions

To compare the spread of micro finance based on the purpose such as consumption, social needs and income generating activities

To examine the reasons for such trends in the study region

To evaluate the relationship with micro finance and micro enterprises in the region

To suggest measures for better flow of micro finance towards facilitating promotion of micro enterprises.

METHODOLOGY:

This paper is drawn from a micro level empirical study based on both primary and secondary data. Three micro finance institutions working in Hassan are randomly selected and the trend of their financing over past five years is analysed based on the financial statements of the organizations. Interviews are held with the executives of selected micro finance institutions as to the reasons for such trends. It is then evaluated and the linkage between micro finance and development of micro enterprises are analyzed.

CONTRIBUTION TO FIELD OF KNOWLEDGE:

This micro level study throws light on the local level trends in the lending pattern of micro finance institutions. It establishes as to whether the micro finance institutions are really pursuing their stated objectives or not. Most importantly the study establishes the nature of relationship between micro finance and micro enterprises in rural areas. The findings of the study are expected to help designing policies to promote micro enterprises in rural areas which are very significant given the context of uncertainty in agricultural income to farmers.

ANALYSIS AND INTERPRETATION

Table 1
Distribution of credit by micro finance institutions Amt in (millions)

PURPOSE	MF1				MF2				MF3				TOTAL			
	No. of Loans	% to total	Amount	% to total	No. of Loans	% to total	Amount	% to total	No. of Loans	% to total	Amount	% to total	No. of Loans	% to total	Amount	% to total
Consumption (house repair, marriage, purchase of TV)	65	40	2.6	38	--	--	--	--	--	--	--	--	65	10.45	2.6	14.82
Social needs (Education, Health etc)	40	24	2.4	35	--	--	--	--	--	--	--	--	40	6.43	2.4	13.68
Micro enterprises (income generating activities like animal husbandry, trade, manufacturing etc.,	60	36	1.8	27	325	100	7.31	100	132	100	3.43	100	517	83.12	12.54	71.5

The complete analysis of 5 years available data shows 3 institutions lending the loans for different purposes. All the 3 institutions are having a different pattern of lending. 1st institution lends the money for all the 3 purposes that is consumption (38%), social needs (35%) and micro enterprises (27%) but on the other hand remaining 2 institutions are completely (100%) lend the money for micro enterprises. Total share of micro institution loans around 71% shared by micro enterprises. Micro enterprises are generating the income and having a good repayment capacity but in case of consumption and social needs its very tuff time to repay because these things are unproductive in nature.

MAJOR FINDINGS:

As per the available data micro enterprises are reaping more benefits from micro financing institution .

From the above 3 institution 2 of them are not providing any loans to consumption and social needs but have given 100% loans for micro enterprises. Micro institutions are concentrating less on consumption loans as well as social needs.

From the above 3 institution one of the institution given loans for all with the almost equitable distribution of loans for all the 3 sectors.

All three micro institution are concentrating more in empowering the women to provide loans to get equality in the society and trying to include them in inclusive growth of economy.

Micro financing institution having effective loan recovery body with a punctual system to reduce NPA as minimum and repayment of principle and interest on time.

There is greater demand for income generating activity loans.

They tend to lend more money on income generating activities because they have good repayment capacity with

more demand.

The income generating activities like cattle business and manufacturing and sale of pickles and candles have greater demand. Institution allocate more loans for cattle business because they pay interest amount and installment regularly.

Micro institutions are concentrating more on rural areas.

SOME OF THE SUGGESTIONS:

Micro institution must concentrate on other sectors like consumption and social needs because they are also essential parts society.

Institution better to expand their micro credit facility for men also.

There is a greater demand for micro credit by micro enterprises hence institution must encasing that situation by providing more and more loans to fulfill their demands with achievement of micro institution goals.

CONCLUSION:

Finally I would like to say that micro credit is a part of micro institution providing a greater opportunities for rural productivity and it helps to reduce the regional imbalance between rural and urban in the Indian economy. Mahathma Gandhi was always saying in his speech "halligala uddarave deshada uddera". This wonderful concept can be achieved only by the way of micro credit for rural people and micro credit have a greater potential in the least developed countries like India with a large number of natural and human recourses utilization through the proper money supply in the economy in the name of financial inclusion or micro credit.

REFERENCE:

1. Ashe J and L. Parrot, (2002) PACI's Women Empowerment Programme in Nepal - A savings and literacy led alternative to financial building, Journal of Microfinance, (4)2, 137-142

2. Bali and Swain R (2006) Microfinance and Women Empowerment, SIDA Working paper, Stokholm
3. Kay T (2003) Empowering Women through self-help micro credit programme, UN(ESCAP), Bangkok
4. Mayoux L and M. Hart (2009) Gender and Rural Micro-finance: Reaching and empowering women – A guide to practitioners, IFAD Report, Rome
5. Zaidi S.A., H. Jamal, S. Javeed and S. Zaka (2007) Social Impact Assessment of Microfinance Programs, Islamabad, European Union/Pakistan Financial Services Sector Programme
6. Zaman (2001) Assessing the Poverty and vulnerability impact of micro-credit in Bangladesh: A case study of BRAC, Background Paper for World Bank World Development Report 2000/2001, Washington DC (Unpublished)