

# Empowerment of Poor People through Microfinance in India

Dr. Abhijeet Akhouri\*

The origin of micro finance can be traced back to 1976 in recent time when Mohammad Yunus set-up the Grameen Bank experiment on the out skirts of the Chittagong University Campus, as an experiment. Prof. Yunus is recognized as the father of micro credit. The programme of micro credit was more sensitive to issues of poverty and gender inequality and thus had in its design a focus on the poor, if not the poorest, and specifically on women. By targeting the landless, micro finance also ensured that the poor could make a livelihood from activities other than agriculture.

It could be possible with the initiative of NABARD and India witnessed a large growth in micro finance over the last decade. By adopting and building on the work of a few pioneering NGOs like MYRADA, ASSEFA, PRADAN and DHAN, the institution NABARD has helped make to SHG-bank linkage model now perhaps the largest micro credit programme in the world out reach to nearly 24 million poor women who have cumulatively received loans of over Rs. 6,800 crore from banks till 2005.

The year 2005, was the U.N. year of micro credit, the fact that the micro credit has been elevated to such an exalted status that the U.N. declares a year around it, is quite amazing, particularly to those who have worked in this field for 20 years. The trend began with the micro credit summit in Washington, D.C. in February 1977. The summit has organised to “launch a global movement to reach 100 million of the world’s poorest families, especially the women of those families, with credit for self employment and other financial and business services, by the year 2005.” The efforts of micro credit programme resulted into the economic empowerment of poor especially the women in India as well as other parts of the world.

Microcredit is a financial innovation which originated in developing countries where it has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income, begin to build wealth and exit from poverty. Microcredit is the extension of very small loans to the entrepreneurs and to others living in poverty who are not considered bankable. These peoples lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Microcredit is a tool for socioeconomic development. Prof. Muhammad Yunus explains the role of micro credit in facilitating women potential as ‘women have plans for themselves, for their children, for their meal’. Due to the success of micro credit, many traditional banking industries have begun to realize that these micro credit borrowers should more correctly be categorized as prebankable; thus, micro credit is increasingly gaining credibility in the mainstream finance industry and many traditional large finance organisations are contemplating micro credit projects as a source of future growth.

## NABARD AS PROMOTER

NABARD established as an apex institution, accredited with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural India with a vision to facilitate sustained access to financial services for the unreached poor women in rural areas through various Micro Finance innovations in a cost effective and sustained manner. NABARD has been working as a catalyst in promoting and linking more and more SHGs to the banking system. The pioneering efforts at this direction were made by NABARD. In 1991-92, a pilot project for linking about 500 SHGs with banks was launched by NABARD in consultation with the RBI. It is considered as a landmark development in banking for the poor. On the recommendation of the NABARD the Reserve Bank advised that the banks financing of SHGs would be reckoned as part of their lending to weaker sections. As a follow up of the recommendations of the NABARD Working Group, the RBI took some measures in 1996 to give a thrust to micro finance based lending. Banks were advised to consider lending to the SHGs as part of their mainstream credit operations, to identify branches having potential for linkage with SHGs and provide necessary support services to such branches. Further it was decided that NABARD would

\*Faculty of Management Magadh University, Bodh-Gaya

continue to provide refinance to banks under the linkage project at the rates stipulated from time to time.

The aim of this study is to contribute to such an understanding by some practical evidence on the impact of microfinance with respect to poverty reduction and the empowerment of poor women. It is interested in the extent to which access to financial services help poor women address their practical daily needs as well as their strategic gender interests and whether the approach taken makes a difference to those outcome. The reviews of micro finance efforts from various parts of the world suggests that by large, access to micro finance has a positive economic impact.

Infact, micro credit programmes extend small loans to poor people to self employment projects that generate income allowing them to case for themselves and their families. In most cases, micro credit programmes offer a combination of services and resources to their clients in addition to credit for self employment. Access to productive resources is critical for enhancing women's economic choices. Since formal credit institutions rarely lend the poor, special institutional arrangements may become necessary to extent credit to those who have no collateral to offer their enterprises. In order to have access to credit, setting up self help group, local banking system women, non-governmental organizations and provisions of facilities by government had to be established. The policy challenge is to support effective grass roots credit schemes and intermediaries and ensure that low-income have assured credit from the formal financial system.

There are a good number of financial institutions that support women to start any new enterprises. Some of them are - Rashtriya Mahila Kosh (RMK), National Agriculture Bank for Rural Development (NABARD), Small Industries Development Bank (SIDBI), Council for Advancement of Peoples Action and Rural Technology (CAPART), Access to Credit through Development Bank for Women Entrepreneurs in Small Scale and Tiny Sectors, Reserved Bank of India (RBI).

It is realised that mobilizing women to take up entrepreneurial and cottage industry activities can enforce an economic change. Though entrepreneurship develop, a women can not only generate income for herself but also will generate employment for other women in the locality. Self Help Groups (SHGs) and cottage industries are always considered

as a viable occupation by the rural women and generate regular income round the year.

**MICRO FINANCE AND EMPOWERMENT OF POOR PEOPLE**-The importance of poor people to the economic development of India was first recognised during the country's struggle for independence. Empowerment is a social action process that promotes participation of people, organization and communities in gaining control over their lives in their community. There is urgent need of empowering women especially in rural area. The formation of Self Help Group and Micro Financing will enhance their socio economic position in the society.

Small loans can make good business sense among the women. It has been noticed that women in particular stand to gain a lot from micro-finance because it gives them an independent means of generating wealth and becoming self-reliant in a society that does not offer them much scope for entrepreneurship. And since it is women who run the household, a higher standard of living for women ensures better governance and a healthier and more prosperous future for the children and a better future for the nation. The success of micro credit initiatives has often been attributed to their particular focus on empowering women and encouraging their self-reliance through developing their own means of income. Various case studies show that there is a positive correlation between credit availability and women's empowerment. It is observed that majority of rural women who are associated with self-help group activity positively success to gain themselves empowered.

Poor people in rural India lived in virtual isolation, unable to access even the most basic of services. But, with the formation of Women's Self-Help Groups, these women are now achieving social and physical mobility. It is recognized that while the empowerment of women is a process that will not happen automatically, SHG is a suitable means for the empowerment of women. The impacts of SHGs on socio-economic status of women were found significant.

Microfinance programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women's empowerment. Where financial service provision leads to the setting up or expansion of micro-enterprises there are a range of potential impacts including :-

- Increasing poor people including women's income levels and control over income leading to greater levels of economic independence.
- Access to networks and markets giving wider experience of the world outside the home, access to information and possibilities for development of other social and political roles.
- Enhancing perceptions of women's contribution to household income and family welfare, increasing women's participation in household decisions about expenditure and other issues and leading to greater expenditure on women's welfare.
- More general improvements in attitudes to women's role in the household and community.

**ENTREPRENEURSHIP DEVELOPMENT AMONG RURAL POOR PEOPLE THROUGH MICRO-CREDIT-SHGs** are of recent origin in rural India to helping more than 17 million poor people from villages improve their incomes, educate their children, and buy assets. SHGs have also helped women campaign against oppressive social practices and become a force of development in their villages. Before 1990's, credit schemes for rural women were almost negligible. The concept of women's credit was born on the - insistence by women oriented studies that highlighted the discrimination and struggle of women in having access to credit.

Micro credits are enough for innovative and hard working micro entrepreneurs to start small business such as making handicraft items. From the income of these small businesses the borrowers of micro credit can enjoy better life, food, shelter, health care and education for their families and above all these small earnings will provide a hope for better future. There are certain misconceptions about the poor rural women that they need loan at subsidized rates of interest on soft terms, they lack education, skills, capacity to save, credit-worthiness and therefore are not bankable. The experiences of several SHGs reveal that rural women are actually efficient. Availability of timely and adequate credit is essential for them to undertake any economic activity rather than credit subsidy.

In rural areas the women micro entrepreneurs continue to produce the traditional designs for local markets. Women in SHGs produce a large variety of essential products such as milk, food products, village crafts and homemade snack foods. Many are engaged in retail

trading of groceries and textiles. These enterprises represent a substantial supply resource for semi-urban and urban markets. SHGs are also viable organized setup to disburse micro credit to the needy entrepreneur women and encouraging their promotion of poverty alleviation activities and programmes.

**ROLE OF SELF HELP GROUPS**-The SHGs of rural people consists of members "who are the poor, having low saving capacity and who depend on money lenders for meeting their consumption needs and social obligations. Formation of poor people including women into self help groups paved a way to develop their economic standards, thereby building self confidence. Women in SHGs have been encouraged by the government as well as NGOs to undertake self employment ventures with locally available resources. Availability of micro-credit helped SHG women a lot and many women came forward and established micro enterprises. At present a number of NGOs and financial institutions have been offering microfinance especially to rural women micro entrepreneurs. They also motivate training programmes to develop their entrepreneurial skills and capacities. Specific trainings in manufacturing or service sector are available for the prospective rural women micro entrepreneurs. These institutions have been encouraging women to start micro enterprises. As a result micro-entrepreneurship is gradually growing importance among the rural women.

In India, the industry has grown under two different systems of patronage. While the SHG linkage programme anchored by NABARD has the patronage of the state and formal banking institutions, a parallel system promoted by non-statal agencies has been depending almost exclusively on subsidised external grants to finance both social mobilisation and on lending. Both target the poor and women, predominantly. In the absence of any suitable legal and regulatory framework to carry on with the business of financial service provision, most players in the latter category have devised strategies to circumvent the 'governmental gaze' in the most innovative ways. Though there are no com-prehensive estimates available on the outreach of the microfinance sector to the poor, available evidence suggests that about 80 percent of the clients are without any formal savings, and 91 percent, without formal credit. Nearly 77 percent of the clients are in the rural sector [EDA 2004].

At the macro level, however, microfinance sector has not been able to make much impact. The cumulative disbursement of bank loans to SHGs stood at Rs 2,049 crore as on March 31, 2003 with an average loan of Rs 28,559 per SHG and Rs 1,766 per family [RBI, 2003]. As on March 2002, SHG advances formed only 0.15 percent of outstanding priority sector loans and 0.51 percent of the accounts of scheduled commercial banks [RBI, 2003]. Even if one considers credit disbursal through other models like the Grameen, the share of microcredit will be well below 1 percent. Lack of access for MFIs to risk capital and restrictions on them in deposit mobilisation have been cited as the major reasons that prevent the 'upscaling' of operations of this sector [Gibbons 2002]. Both issues are intricately related to the prevailing legal / institutional structure of the country's financial sector.

**IMPACT OF MICRO FINANCE**-Interestingly, there does not seem to be much appreciation of the factors that constrain growth on the demand side in the discussions on microcredit / microfinance. These include factors that broadly determine the credit absorption capacity of house-holds and regions. With sector being explicitly biased towards rural areas, other than credit, factors like rural infrastructure, especially irrigation, are critically important from the perspective of development. Microcredit, as in the case of targeted lending, cannot address these issues by its very mission and scope for its focus is on individuals. Thus, enterprise creation and expansion in the non-farm sector is the preferred lending purpose of most microcredit programmes, especially those following the non-SHG linkage methodology. This approach has led in many instances of growing dissonance between local economic endowment and microcredit inputs, finally cracking up group morale and affecting repayment in certain regions within specific programmes.

Given this fact, any effort at upscaling needs to be viewed with caution as it could actually lead to increased failures and disruption of credit discipline in the field. The industry, it is clear, has taken a cautious approach which is evident from the data on the regional spread of microcredit. Thus, it appears that the peculiar spatial spread of the microcredit sector in India is a major explanatory factor for its performance so far. It may be noted that the non-SHG model MFIs too are concentrated in the south of India.

Further, advocates of upscaling believe that an extended base of microcredit would contribute significantly to the diversification of

livelihoods in the non-farm sector. There is evidence to suggest that increased access to the formal banking sector and the increased flow of bank credit and savings to rural areas subsequent to bank nationalisation helped the growth of non-farm rather than the farm sector. However, there is- no conclusive evidence to prove that microcredit infusion in rural areas automatically leads to livelihood diversification unless the MFI insists on lending to productive purposes. In the case of the relatively flexible SHG model, as revealed from the fact, loans are generally invested in supplementary activities in the farm and allied sectors.

There is also the related issue of the productivity of micro ventures. It is not clear whether the non-agricultural activities supported by microcredit are dynamic and growing. The pertinent question is whether microcredit promotes an 'involutionary' pattern of diversification wherein rural households engage in a spectrum of low productivity activities to maintain their incomes, or in a more positive diversification accompanied by high productivity and increased consumption levels. No systematic enquiries have been made so far on the linkages between microcredit supported enterprises and the larger issues of productivity and employment. The author's field research in a fishing village in western India has brought forth another interesting phenomenon. The clients of a credit programme did enhance their asset position - fishing nets in this case-with the help of soft loans. But many of them cut down on the number of fishing days. Thus even when the loan has increased the productivity of fishing activity technically, the average income and consumption levels of many of the households have not gone up to any significant extent. The inability of MFIs to address structural issues including imperfections in the factor and product markets tend to limit their efficacy in delivering services in a sustainable manner.

#### References :

- Dash, A and N. Kabeer (2004) : 'From Social Exclusion to Citizenship' Analysing the Impacts of CYSD SHG in Koraput, Orissa', draft paper, Imp-Act Programmes.
- Dreze, J. and A. Sen (1991) : 'Public Action for Social Security: Foundations and Strategy' in E. Ahmad, J. Dreze, J. Hills and A. Sen (eds), Social Security in Developing Countries, Calrendon Press, Oxford.

- Goetz, A.M. and R. Sen Gupta (1996) : ‘Who Takes the Credit? Gender, Power and Control over Loan Use in Rural Credit Programmes in Bangladesh’, *World Development*, Vol. 24(1) : 45-63.
- Hashemi, S., R.S. Schuler and I. Riley (1996) : ‘Rural Credit Programmes and Women’s Empowerment in Bangladesh’, *World Development*, Vol. 24(4), 635-53.
- Holvoet, N. (2005) : ‘The impact of Microfinance on Decision-making Agency, Evidence from South India’, *Development and Change*, Vol. 36(1), 75-102.

\*\*\*\*\*

