

# MICRO FINANCE, SHGS AS A TOOL OF POVERTY ALLEVIATION AND WOMEN EMPOWERMENT

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## ABSTRACT

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*One of the powerful approaches to women empowerment and rural entrepreneurship is the formation of Self Help Groups (SHGs) especially among women. This strategy had fetched noticeable results not only in India and Bangladesh but world over. Women being central to the entire development process and at the precursor of social transformation can be demonstrated with many examples that could include Grameen Bank's success, SHGs of ICICI Bank, Shakthi Ammas at HLL, Cemex, Amul, the success of Avon, Mary Kay, and Tupperware in US and other parts of the world. Micro Finance as a tool of poverty alleviation and women empowerment has gained acceptance in development dialogue the world over. There is an acute need among the poor for credit, both for consumption and production, which often forms the declining line between survival and succumbing to poverty. It has been found that besides food, credit is also needed for health, housing education. These needs are also critical for survival (Zeller, 2000). The success of SHGs as a development tool depends on the availability of Micro Finance. This paper tries to link all the pertinent points discussed above namely Micro Finance, SHGs, Women Empowerment and Women Entrepreneurship.*

*Keywords - Micro Finance, SHGS, Poverty, Women*

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## I. INTRODUCTION

"In most of the developing countries today, more and more emphasis is laid on the need for development of women and their active participation in the main stream of development process. It is also widely recognized that apart from managing household, bearing children, rural women bring income with productive activities ranging from traditional work in the fields to working in factories or running small and petty businesses. They have also proven that they can be better entrepreneurs and development managers in any kind of human development activities. Therefore, it is important and utmost necessary to make rural women empowered in taking decisions to enable them to be in the central part of any human development process. The empowerment of women also considered as an active process enabling women to realize their full identity and power in all spheres of life.

For women to become a successful entrepreneur, she needs access to capital, technical and managerial know-how and market. The essence to empower rural women lies in catalyzing appropriate economic activities at the grass root level and creating new opportunities for them to earn higher income in order to improve their standard of living. This objective could be accomplished by establishing enterprises that are based on the locally available resources and preferably indigenous knowledge.

Development experience shows that gender inequalities are a major factor impeding progress towards the Millennium Development Goals of poverty reduction. This is particularly true in rural areas, where women are generally very involved in productive work but lack access to assets they need to play that role effectively. As a result of this imbalance, rural women are often more vulnerable to poverty than men, and their limited ability to secure assets independently makes them more likely to be negatively affected by ongoing changes in rural markets and institutions

## II. WOMEN SELF-HELP GROUPS

One of the powerful approaches to women empowerment and rural entrepreneurship is the formation of Self Help Groups (SHGs) especially among women. This strategy had fetched noticeable results not only in India and Bangladesh but world over. "Women self-help groups are increasingly being used as tool for various developmental interventions. Credit and its delivery through self-help groups have also been taken as a means for empowerment of rural women. This integrated approach, whereby, credit is only an entry point, and an instrument to operationalise other aspects of group dynamics and management, also caters to the need for social intermediation of these groups. A self-help group is conceived as a sustainable people's institution that provides the poor rural women with space and

support necessary for them to take effective steps towards achieving greater control of their lives. The SHG approach has proved successful not only in improving the economic conditions through income generation but in creating awareness about health and hygiene, sanitation and cleanliness, environmental protection, importance of education and better response for development schemes.

Through organizing informal self-help groups (SHGs), rural women in India are provided credit and extension support for various production-oriented income-generating activities. These activities usually include garment making, embroidery, food processing, bee keeping, basketry, gem cutting, weaving, and knitting. SHGs are self-governed, with decisions about production and marketing taken collectively, although the group leader is responsible for identifying potential marketing centers and consumers. These groups represent a new culture in rural development, breaking with traditional bureaucracy and top-down management. Informal groups empower rural women to manage rural industries and make decisions collectively for their common economic interests. Studies on the development of informal women's groups in India, shows how it is possible to avoid the 'top-down management' and bureaucracy that often contribute to the failure of other schemes. Informal self-help groups in rural areas serve to empower women, and provide a basis for the provision of credit and other support for various production and income-generation activities.

### **III. OTHER MAJOR INITIATIVES FOR WOMEN EMPOWERMENT**

Women in the rural areas are the catalyst of change and that is why its whole programme keeps women in progress. In the women's savings movement, rural women organized themselves into 'thrift and credit' groups with one rupee saving a day and this mass movement, in which 58 lakh members saved more than Rs.800 crore is rotated internally and lent amongst members twice in a year as per the interest rates fixed by the groups. While the savings was there among the SHGs, there was no channel of investment. Now HLL has provided a window of opportunity to invest and earn.

### **IV. MICROFINANCE AND WOMEN EMPOWERMENT**

Links between microfinance and women's empowerment are viewed as optimistic, limited by design, cost effective in eliminating poverty, and a misplaced diversion of resources. Microfinance programs range from small scale self-help groups to large poverty-targeted banks. One model may vary in delivery, group functions and structures, and complementary services. There could be 3 contrasting

approaches to microfinance and women's empowerment: the financial sustainability approach, the integrated community development approach, and the feminist empowerment approach. However, program evaluations revealed the need to question the assumptions underlying all 3 approaches. In most programs, women benefited to a limited degree. Many women did not control the loan use. Most women were engaged in low paid, traditionally female activities, and increases in income were small. Resources and time invested in economic activity were limited by responsibility for household consumption and unpaid domestic work. Microfinance programs sometimes created domestic tension between spouses and loss of spousal income and support. Group repayment pressures sometimes created pressures between women. Many women focused on personal rather than social objectives.

### **V. FINANCIAL SERVICES FOR THE RURAL POOR**

While the fortunes of the many of India's biggest corporations are likely to be shaped by 638365 villages in India, the commercial sector has traditionally avoided the rural areas, deeming it as non-profitable and risky. This has led many of the 800 million poor to turn to local money lenders charging 36-72% interest rates or suffer without capital. It is estimated that poor needs around Rs.2000 billion. Globally over a billion people are still without access to formal financial services and some 200 million of them live in India. Microfinance, the provision of a wide range of financial services to the poor on a sustainable basis, has proved to be immensely valuable. Access to financial services has allowed many families throughout the developing world (and, indeed, in poorer parts of the developed world) to make significant progress in their own efforts to escape poverty.

It has become clear that poor need access to money to send their children to school, to buy medicines; they need financial services to reduce their vulnerability. As a result, worldwide, MFIs have started developing and delivering a range of financial products. This reflects Millennium Development Goals (MDGs) that offer broadly accepted, measurable indicators of poverty reduction that are focused on poverty, education, health and empowerment.

### **VI. SHG-BANK LINKAGE**

India has the world's extensive banking infrastructure. There are about 60,000 retail credit outlets of the formal banking sector comprising 12,000 branches of district-level cooperative banks, over 14,000 branches of Regional Rural banks and over 30,000 rural and semi-urban branches of commercial banks; in addition to 1,12,000 cooperative credit

societies at village level. There is at least one retail credit outlet on an average for about 5,000 rural people or every 1,000 households. This is an extensive and remarkable network that is present nowhere in the world and is capable of meeting the financial needs of the entire rural population. However, poor credit-deposit ratios (except in PACSs), unsustainable lending and high levels of NPAs, often cripple much of this infrastructure.

Under the SHG-Bank linkage programme, in 2004, 16.7 million poor households were accessing credit through 35,000 branches of 560 commercial and cooperative banks. The GoI made linking SHGs with banks a national priority from 1999 and Nabard continues to nurture the expansion of the outreach of the programme by providing umbrella support to various stakeholders. The programme is growing at a pace of about 2.5 million households annually. It is the largest and fastest growing microfinance programme in the world in terms of its outreach and sustainability.

The credit linked rural entrepreneurial development programme of NABARD is gaining in rural Karnataka and has helped promote entrepreneurship, particularly among women. During 2003, of 75,000 SHGs that received financial assistance, 3,628 have become micro-entrepreneurs (< 5%). Of 3,628 micro-entrepreneurs, 2,476 were women (68%). Almost all the people involved in various activities were earning over Rs.10,000 per month and had enhanced their business and marketing skills. To provide financial assistance to artisans and small entrepreneurs in investment and working capital requirement, NABARD had formulated a special credit card scheme called Swarojgar Credit Card (SCC). Under the scheme, Rs.25,000 could be borrowed.

There is a long way to go and a very conservative estimate suggests that, in India, at most, just 20% of all the eligible low-income people have access to financial services from formal financial institutions, MFIs and other such stakeholders. Considering the increased competition in micro-credit and the pressure to reduce interest rates, it is time to move to considering moving beyond group lending. The primary reason for group lending are the inability of the takers to offer collateral, and hence the group mechanism was looked as collateral. The commonly stated advantages of group lending are that the problems of adverse selection, moral hazard and enforcement are sufficiently addressed. In India, there are primarily two group lending models, one the Grameen Bank type and the other the SHG model.

In the case of sparsely populated areas and the areas where groups could not be formed, individual loans can be offered by taking non-traditional

collaterals like the borrower's degree certificate, driving license and such others (Bank Rakyat Indonesia, BRI uses this technique effectively). Another way is to insist the borrowers to demonstrate habitual savings for a certain period before sanctioning the loan (the SHG-Bank linkage model, uses this technique). Other means is to give dynamic incentives and disincentives in the case of repayment. In the Grammen bank, the recent change being removal of joint liability of a group for the loan taken by one member of the group, though the group meeting regimen follows.

## VII. WOMEN ENTREPRENEURS

Empowering Women has become the key element in the development of any economy. It is been found that there are various forums and NGOs that are working hard towards this direction. There is lot of research studies supporting this view.

The Indian Economy has been substantially liberalized in recent years with an increasing role for small-scale private enterprise. Alongside economic liberalization has come a drive to enhance the role of women with moves to ensure that women have at least 30% of seats in local councils and many other elected bodies (though not as yet in the national parliament).

As a result women are playing a more important economic role. There has always been a tradition of education for middle class women in India and increasingly there is a strong and growing group of professional women holding positions in Indian Universities and Government service. However, there are no sex discrimination laws within the labour market.

Women have also traditionally been involved in the informal economy, working in family businesses without formal position or pay. Thus their economic contribution is often undervalued or just not mentioned at all. The Indian Government and the state governments have taken some steps to encourage women to set up small businesses. For example the Karnataka State Government was offering help to widows to set up knitting Businesses in 1997. However, whilst some statistical information is available (e.g. Singh, 1991) this focuses on work participation, unemployment, work seekers, wage rates, differentials and trades union membership.

There is some information available on women entrepreneurs in the UK. Johnson and Storey (1994) suggest that women entrepreneurs are less likely to be married or have a professional qualification or to start self-employment under 30. Whereas Vokins (1994) study of successful women entrepreneurs suggested they had a different approach: an ability to do several

things at once; ability to admit mistakes; keen to develop the workforce; less concerned with outward trappings. Women also faced different problems. Simpson (1991) found that their partners do not help with domestic chores or the business, whilst the reverse is true for men. Simpson also suggested that women have to work harder to gain credibility. Truman (1994) found that the advice services for entrepreneurs do not gear themselves for women. They also have problems with childcare and raising finance. However the Microcredit Programme run by the India Government does help provide finance for small businesses. Rajasekhar in his study of NGOs has produced some research on the effects of the Micro Credit Programmes On Poverty, Wellbeing and Gender Equality This study would therefore focus on the different motivation of women entrepreneurs in India and their contribution to the local economy for which there does not appear to be specific research.

### **VIII. CONCLUSION**

There are many benefits due to micro-finance towards women empowerment and poverty alleviation, there are some concerns. First, these are dependent on the programmatic and institutional strategies adopted by the intermediaries, second, there are limits to how far micro-credit interventions can alone reach the ultra poor, third the extent of positive results varies across household headship, caste and religion and fourth the regulation of both public and private infrastructure in the context of LPG to sustain the benefits of social service providers.

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