

CHAPTER 1

INTRODUCTION

1.1 Concepts of Microfinance

With the emergence of microfinance, a wave of progress was imagined in the world with which low-income households will be having permanent access to a range of good quality financial services to finance their income generating activities, to build assets, to stabilize consumption, and to protect against risks. Services of microfinance include savings, credit, insurance, and money transfers. It allows social development of unprivileged people by protecting, diversifying, and increasing their sources for income by bringing them out of hunger and poverty. The ability to borrow a small amount of money to take advantage for income generating activity, to pay for school fees, or to bridge a cash-flow gap can be a first step in breaking the circle of poverty.

1.2. Microfinance: A Tool for Upliftment of the Poor

For the last two decades, microfinance is a very efficient tool for the provision of financial services to the poor. The term became a social trendsetter to prefer financial services to the poor women, who were previously considered non bankable as they have no security or property to give to the bank or to the money lenders. Microfinance has grown in the last few years and recognised as a home name in India by giving a ray of hope to poor women, as they do not have any property or valuable to avail banking services. They can never or even borrow money lenders as their capabilities are always doubted. So in turn they have no source of income or employment and their living standard goes down day by day. Microfinance has acted as a boon and by providing money on social collateral i.e. a group of people give witness or guarantee that the money borrowed will not become a bad debt, if not paid by the borrower then the money will be paid by other group members.

Microfinance also helps safeguard poor household women against the extreme vulnerability that characterises their everyday existence. Loans, savings and insurance all elements of microfinance help smooth-out income fluctuations and maintain consumption levels even during the lean periods. The accessibility of financial services acts as a buffer for sudden emergencies like business risks, events or seasonal slumps such as a flood or a death in the family that can push a poor family into destitution. Government of India launched Swaran Jayanti Shahri Rojgar Yojana (SJSRY) on 1st Dec. 1997. Microfinance in India is working successfully with home grown model i.e. Self help groups have been founded under this SJSRY for alleviation of poverty which rest on foundation of women empowerment.

UNDP has defined two crucial routes as imperative for empowerment. First is social mobilization and collective agency, as poor women often need the basic capabilities and self confidence to counter and challenge existing disparities and barriers against them. Second, the process of social mobilization needs to be accompanied by economic security. One strategy which has been found to be promising is participatory institution building in the self help groups, often coupled with saving and microcredit loans (ESCAP, 2002). The world bank has suggested that empowerment of women should be a key aspect of social development programs (World Bank,2001).

The impact of Microfinance program through SHG is remarkable. The high level of costs is often mentioned to explain the reluctance of the conservative or conventional banks to provide credit to the poor. Given small sizes of the loans, conventional banks simply do not think it is worth the risk or the high cost of appraising the loan (Akula, 2010). Organisations like Hindustan Lever have looked at the potential of these groups as a channel for retailing and have launched a programme called 'Project Shakti' to tap the smaller villages through the micro credit channel. Another discovery followed, that the poor can and will save, and can indeed uses a wide range of financial services such as payment facilities and insurance products.

Microfinance institutions are dealing with such financial services to the poor who help them not only to overcome poverty but also to upgrade their skills and in turn develop commercial skills. Various small help promoting institutes and NGOs have been recognised as a part of microfinance concept especially in providing credit plus services. NGOs were initially confined to the social aspect of development and later enlarged to help the poor women and weaker sections of the society in their economic pursuits. General unemployability exists due to unskilled or low skilled workers who cannot find a job in the formal sector (Kabeer, 1999). When formal sector or recognized financial markets cannot fulfill the needs of small and micro enterprises then informal markets will do the needfull, but usually at a very high rate which can jeopardize the survival of small business. The impact of microfinance programs through SHGs has been effective in making positive social change in all the members. It is estimated, however that about 80 per cent of those who are in need of financial resources, about 400-500 million people worldwide are yet outside the mainstream of formal financial system. This situation raises serious equality concerns, since it disproportionately affects the poor and people living in rural areas (Singh and Singh, 2006).

Microfinance is as important as bank, though in all the cases it may not come forward to issue small loans. Most small groups start their existence without any institutional help. As the group starts saving and can obtain the small amount of finance from the groups own saving. The promotion of income generating activities for the poor, rural women and urban women is perceived as a powerful medium to solve several socio-economic problems such as reduction of poverty, provision of goods and services in the local markets as per their needs. The poor people are getting help from SHGs in the form of training, monetary loan and inculcating continuous saving habits when they form a group of people whose minimum strength can be five and maximum strength can be 20. If group members exceed 20, then group must be a registered group. But the group must be formed by female members or by male members separately. Group works hand in hand with the policies of SHGs. In

addition to the establishment or growth of micro enterprises, microfinance can increase the standard of living for the economically active poor women and improve their empowerment. SHGs intermediated by micro-credit have been shown to have positive effects on women, through asset creation, income, consumption, smoothing, provision of emergency assistance, empowering and embodying women by giving them control over assets and increased self esteem and knowledge (Goetz and Sengupta,1996).

Microfinance institutions are playing a significant role in facilitating rural poor, as they are reaching out to them as per their needs. Many of them operate in a limited geographical area and have a greater understanding of the issues specific to the rural poor. They enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their customers. There are several legal forms of MFIs. Services of MFIs are defined as assistance to individual or an eligible client, either directly or through a group. They can be categorized as NGOs, Commercial banks and private banks dealing with Micro finance and self help Groups.

1.3. Microfinance and Women Empowerment

The Indian microfinance sector is a pack of several approaches found across the world. Most of the development programmes started in the past had gender bias. However, the emphasis of the microfinance programme is right because in most of the developing country women have a low socio-economic status. They are the most disadvantages, poverty stuck and vulnerable section of the society characterised by the lack of access to the resources and education. As a result, the women remained less participative in the development process of the country. Empowerment is the process of enabling or authorising an individual to think, behave, and take action and scheming in a self-governing way.

Empowerment in its broadest sense as the “expansion of freedom of choice and action”(Narayan, 2002). United Nations defines empowerment as the processes by which women take control and ownership of their

lives through expansion of their choices (UNDP, 2001). The essentials of empowerment have been defined as agency (the ability to define one's goals and act upon those), awareness of gender power structures, self-esteem, self-confidence and points out that a distinction has to be made about the type of choices, and the focus necessarily has to be on strategic life choices i.e. choices that shape livelihoods or are 'critical for people to live the lives they want' (Kabeer, 2001).

Microfinance acts as a catalyst to organise the unorganised for social change. With the help of microfinance, unbanked women are able to mobilise their saving for credit to the peer group members and for self employment. Groups are generally formed with the members of their own choice having common interest to fight with poverty and to carry out some income generating activities. Across the globe and in India, the microcredit revolutions for the past few decades have proved that it is possible to deliver financial services to the poor women at a large scale. As a result, millions of household women today have access to services to manage household finance more efficiently. The 10th five year plan (2002-2007) had a main focus on capacity building, communication technology transfer, human resource development, women empowerment, education, micro credit and self help groups etc.

Another trickledown effect of India's macroeconomic policies is that they have failed to resolve the problem of gender inequality. Women being a vulnerable segment of society comprise a sizeable section of the poverty-struck population. Women face gender specific barriers to access education, health, employment etc. Microfinance deals with women below the poverty line. Micro credit is available solely and entirely to this target segment, there are so many reasons for this. Among the poor, women are most underprivileged –they are characterized by lack of education and way in to resources, both of which are necessary to help them work their way out of social mobility and poverty. The problem is more acute for women in countries like India, despite the fact that women's labour makes a critical contribution to the economy. This is due to the low social status and lack of access to key resources. Various studies have reported

that groups of women are better customers than men, the better managers of resources. If loans are routed through women benefits of loans are spread wider among the household. Women's empowerment is the solution to socio-economic development of the community. So bringing women into the mainstream of national development has been a major concern of government.

Empowerment is viewed as a mean for generating social environment in which beneficiaries/ participants are able to take decisions and make independent choices either individually or in a group for social revolution. It strengthens the innate ability by way of knowledge acquiring, experience and power. Empowerment is a multi-dimensional social process that helps people gain control over their lives, communities and in their society by acting on issues. Empowering women puts the spotlight on education and employment which are an essential element to sustainable development. The situation in India is grim; and in fact, India is late starter in this field. Despite the significant growth and poverty reduction records that India has achieved during the past decade, the country still has a long way to go, especially with respect to rural poverty.

Empowerment can take place at a ranking of different levels – household, individual, community and societal – is facilitated by providing encouraging factors like exposure to the new activities, which can build capacities and removing inhibiting factors like lack of resources and skills. In this connection Micro-finance with Self Help Groups play an effective role for promoting women empowerment. It is not only an efficient tool to fight against poverty, but also as a means of promoting the empowerment of the most marginalised sections of the population, especially women.

Microfinance institution dealing with such financial services to the poor who help them not overcome poverty but also helps them to upgrade their skills. Women are facing some problems like gender biases, non cooperation, hostile attitude towards working women, domestic violence, etc. So, initially social aspect of development was to help the women in their economic development was accorded utmost attention. Micro

enterprises through microfinance are considered a mechanism based on its capacity to generate employment (with capacity building) and raised earnings (with income generating activities).

Microfinance institutions keep a check on the loan taken by women and its utility. But because of social norms or Indian patriarchal structure, male remains privileged in the family and maximum benefits of loans are drawn by the man of the house. Mayoux(1995) has identified three 'paradigms' on micro-finance and gender biasness. The 'financial self-sustainability paradigm', currently dominant within most donor agencies and USAID, World Bank, UNDP, etc. assumes that increasing women's access to micro-finance services will lead to individual economic empowerment, well-being and social and political empowerment. It provides little opportunity for client participation, group self-management or autonomy. The 'Poverty alleviation paradigm' has its rationale for targeting women, because of higher levels of female poverty and women's responsibility for household well-being. The 'feminist empowerment paradigm' is based on a mutual or self-help approach pioneered in India in the early 1980s and argues that the very process of taking decisions within the group is an empowering process and so can lead to broader development outcomes, such as the greater participation of women in local government processes, and so on. In general, we can say, that is related to the participation of people in different community and political institutions, decision-making power and mobility, access to safe drinking water and sanitation coverage. The other factors which result as the increase in social empowerment are increase in contraceptive prevalence rate and access to public and common property resources, and decrease in child and maternal mortality. It is rooted in the development of some of the earliest micro-finance programmes in the South, particularly (SEWA) in India. It emphasises high levels of group ownership, control and management.

The research lays emphasized on economic empowerment of women. As a consequence of economic empowerment, income, savings, employment and self-employment increases and thus reducing

unemployment and indebtedness. Social empowerment refers mainly to the social awareness and literacy rate, especially of women who are much exploited in many parts of the developing countries.

1.4. Current Scenario of MFIs

Today there are over 10,000 microfinance institutions that serve about 190 million families, meaning almost 950 million people with a family size of five (Daley and Harris, 2011). However, there are still about 2.5 billion people worldwide who lack access to banking services. The majority of unbanked is located in underdeveloped countries: 80% of adults in sub-Saharan Africa, 67% in the Middle East, 65% in Latin America, 59% in East Asia and South East, 58% in South Asia, 43% of adults in Eastern Europe and Central Asia and about 8% of adults in OECD (Organization for Economic Co-operation and Development) countries are unbanked (Chaia *et al*, 2009). Over 800 microfinance institutions now operates in India, reaching out to over 7.3 million clients, cumulatively disbursing over Rs. 8,000 cores in small loans. The compounded annual growth rate for outreach as well gross loan portfolio of the MFIs during last five years ranged between 45 percent to over 100 percent (Assadi and Cudi,2011).

Microfinance services today are accessed by million clients including the SHG- Bank linkage and MFI models. The mechanism of microfinance operates at three different levels: firstly the poor people or borrowers who take the loans and invest in their own enterprise. Secondly, the loan delivery and recovery system and thirdly the institutions i.e. banks, MFIs, NGO's and other microfinance supporting institutes that energise the whole system of microfinance. The growth of microfinance has been significantly responsible for building social capital and empirical evidence proves that there is a direct relation between social capital and the performance of credit delivery. Further 97% of the groups formed for microfinance are having female members. Some of the financial practitioners shrink their hands for extending financial support to female members as they feel that to give services and benefits to women can affect their financial working, they fear that it will affect their

efficiency and professionalism because females are not as determined to work as compared to men, so may be their finance can become a bad debt. As a matter of fact, most state governments now consider it desirable to offer women's empowerment programs in order to alleviate poverty and to bring about women's development.

From the above discussion it may be concluded that microfinance is a very effective tool for the upliftment of the poor, in general and empowerment of women in particular. Advancing microfinance to the rural women through Self-Help Groups at reasonable terms and conditions made it possible for the rural poor as well as rural women to attain economic independence, social status and organizational skills which resultantly helping the women and poor function actively in the overall development of the society/nation. Microfinance supporting institutions have also emerged as a commendable tool for the generation of self-employment and hence to prevent the society from doing evils like drug addiction. Therefore, microfinance has acquired utmost importance particularly in the developing economy like India.