Microfinance: A Strategy for Woman Empowerment

Dr. Joyati Bhattacharya

Abstract--- Microfinance has emerged as a powerful instrument of poverty alleviation in the last two decades.. In India, microfinance scene is dominated by Self-help Group-Bank Linkage Programme as a cost effective mechanism for providing financial services to the poor, especially women. In this endeavour, microfinance not only meets the financial needs of the rural poor women but also strengthen their collective self-help capacities which in due course contribute to empowerment. Thus, involvement of women in microfinance movement is now being considered as a major policy strategy to empower women. But in the process, there are problems too. A better understanding of the diversity of women's livelihood and of constraints is important to bring lasting change in the lives of women in rural India

Keywords--- Micro-finance, Self-Help Groups, Virtuous spiral

I. Introduction

WHEN women thrive, all of the society benefits, and succeeding generations are given a better start in life - Kofi Annan.

One of the most discussed subjects of the last two decades is micro-finance. Since the familiarization of the philosophy of Professor Mohammad Yunus who tried to organize the poorest of the poor into Self-help Groups (SHGs) with a view to make them realize the importance of short-term small credit in attaining self-sufficiency, micro-finance is being considered as a major strategy of combating poverty and unemployment in under developed world. The low economic growth of the underdeveloped and developing countries is generally perceived to be due to the lack of capital resources, particularly in the hands of the poor who constitute the greater mass of the population in such countries. Low capital, low productivity, low income and low savings along with a weak capital base operate to sustain and perpetuate poverty in developing countries. But a comprehensive and harmonious development of a country needs uniform development of all its citizens. It necessacitates the reduction of the hiatus between people which unfortunately is a dominant feature of the developing countries. In this context the role of micro-finance is crucial and it is more profound for women who for various reasons generally lack the necessary conditions and skill of empowerment. It is often considered by concerned groups and people that micro-financing system can be an effective means of reaching women and involving them in the development process.

Dr. Joyati Bhattacharya, Department of Political Science, Assam University, Silchar, Assam, India (Phone: (+91)9435724114, Email: joyati09@gmail.com)

A 2001 survey conducted on 29 microfinance institutions by the Special Unit on Micro-finance of the United Nations Capital Development Fund reveals that 60 percent of these institutions' clients are women.[1]

Thus, it is generally conceived that although microfinance can not be an all-encompassing remedy to the barriers of women's empowerment, but such programmes, when properly designed and executed, may contribute substantially to women's empowerment.

II. What Is Microfinance

Microfinance is the supply of loans, savings and other financial services to the poor. The poor throughout the developing world are generally not part of the formal employment sector. Micro finance provides such financial services which generates self-employment among the poor. It makes available the institutional credit to the economically weaker section of the population. It can be defined as a broad range of financial services such as deposits, loans, money transfer and insurance to the poor, low income households and micro level enterprises. It is also defined as the small scale financial services provided to the people who work in agriculture, fishing and herding, run small micro enterprises or work on daily basis in lieu of wages. Financial services usually include credit and savings, but sometimes additional services such as the issue of cheques, drafts, guarantees etc are also provided by microfinance institutions. The Task Force instituted by the National Bank for Agriculture and Rural Development (NABARD) defined micro finance as "provision for thrift, credit and other financial services and products of very small amounts to the poor in rural and semi urban areas for enabling them to raise their income levels and in improving living standards"[2] MIX recognizes many general definitions of microfinance, but for analysis purposes, employs a functional definition: "Microfinance services – as opposed to financial services in general – are retail financial services that are relatively small in relation to the income of a typical individual. Specifically, the average outstanding balance of microfinance products is no greater than 25 percent of the average income per person (GNI Percapita).[3] In India, microfinance has been defined by the National Microfinance Taskforce, 1999 as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban areas for enabling them to raise their income levels and improve living standards."[4]

III. Models Of Micro Finance In India

There are two main models of microfinance in India. One is of informal type in which poor in rural India often borrow loans from landlords, local shopkeepers, professional money lenders, traders, relatives and so on. Some of the perceived advantages of informal loans are contractual flexibility, lower discrepancies between loan sanctioned and loan received, less reliance on security and elasticity of time. As regards formal model, there are two main types of micro credit in the country. One is the 'Banking Model' in which Self-Help Groups (SHGs) so formed are financed by banks and the other is the 'MFI Model' in which SHGs are financed by Micro Finance Institutions (MFIs) that obtain resource support from various channels. In India, majority of micro credit activity is supported by banks, while a marginal activity of such type is sponsored by 'MFI Model'.

IV. Why Target Women: Assumptions And Realities

Different organizations have different rationales in relating women to microfinance. Research done by UNDP, UNIFEM, the World Bank and the like generally indicate that gender discrimination in developing countries acts as a compelling force towards the spread and popularity of the microfinance. In such societies, women are poorer and more disadvantaged than men. Gender inequality inhibits economic growth. A recent World Bank Report suggests that societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance and a lower living standard of their people.[5] The UNDP's Human Development Report, 1995 suggested that 70 percent of the 1.3 billion people living on less than $ 1 a day are women.[6] One of the reasons for that was women's limited access to resources and credit. The problem of women's access to credit was first highlighted at the first international Women's Conference in Mexico in 1975, leading to the setting up of women's world banking network. At the eve of the second conference in Nairobi in 1985, there had been a flurry of both governmental and non-governmental income generating schemes for women, many of which included savings and credit. Then came the concept of microfinance at a popular spectrum which increasingly began to target women as its prime beneficiaries. This has happened not only because of women's greater vulnerability to poverty but also because women's loan repayment rate has been found to be significantly higher to men. Thus, microfinance programmes generally target women with the explicit goal of empowering them, although the underlying premises differ among different groups. Some groups consider women as amongst the poorest and the most vulnerable of the underprivileged. Others believe that investing in women's capabilities empowers them to make choices, which eventually contributes to greater economic growth and development. Finally, some proponents emphasize that an increase in women's resources results in higher well-being of the family, especially children.

However, in the midst of the assumptions, the question that needs further investigation is whether micro credits, in reality, reinforce women's traditional roles or promotes gender equality. A survey of 60 micro finance institutions by Cheston and Kuhn found strong evidence to suggest that micro finance institutions contribute to women's empowerment. One consistent finding across various states was relating to the increase in self confidence and self esteem of the women. Another was women's increased participation in decision-making. Women's Empowerment Project in Nepal, for example, showed that 68 percent of women experienced improvement in their decision making role in the areas of family planning, children's marriage, buying and selling property, and sending their children to school. There had also been improvement in status and gender relations for women at home. Women's financial contributions helped them earn greater respect from their husband and children, negotiate husband's help with housework, and avoid family quarrels over money.[7] 40 percent of poverty reduction in rural Bangladesh is attributed to microfinance. Thus, the broader presumption is that access to resource alone may not ascertain empowerment and equality for women, but economic self-reliance is expected to generate increased self-esteem, decision-making capability and bargaining ability which in the long run may contribute to empowerment.

V. Potential Benefits Of Micro Finance: The Case Of India

The expansion of microfinance since the 1990s has significantly increased women's access to facilities for small loans and savings. This increased access to microfinance has been seen as contributing, not only to poverty and financial sustainability, but also to a series of 'virtuous spirals'[8] of empowerment, increased well-being and social and political awareness for women, thereby addressing the goals of gender equality and empowerment. Linda Mayoux and Maria Hartl in their paper "Gender and Rural Microfinance: Reaching and Empowering Women"[9] refers to the dimensions of and inter linkages between empowerment and microfinance as identified in the literature. First, increasing women's access to microfinance services can lead to their economic empowerment. Women's role in household financial management may improve which, in turn, may contribute to the well- being of the household concerned along with ensuring wider space for participation in decision-making for women. A combination of economic empowerment and active participation in household decision-making can also lead to social and political empowerment. Moreover, these three dimensions of economic well-being, changing role in the family and socio-political empowerment are mutually reinforcing both at the individual level and the household, community and macro level.

There is no exception as regards the impact of microfinance in India as well. In India, the institution of microfinance emerged in 1970s to provide poor people with access to rural credit. In 1974, SEWA Cooperative Bank was established to help low income women escape the trap of the debt burden and reduce their dependence on moneylenders. Much like Grameen Bank in Bangladesh, SEWA Bank relied on peer pressure group tactic to ensure high loan repayment rates. Through its success, SEWA Bank proved the utility of small credit and thus helped pave the way for the emergence of hundreds of microfinance institutions during the 1980s and 1990s. Microfinance institutions (MFIs) follow a variety of

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methodologies to provide financial services. In case of India, Self-help Groups (SHGs) are an important means of channelising microfinance to the poor, especially women. The operations of 15-25 member SHGs are based on the principle of revolving the members' own savings. External financial assistance, whether by a bank or any other microfinance institution, helps to augment the resources available to the group and studies suggest that self-help programmes, often in the form of savings and credit or micro credit schemes, have succeeded in changing the lives of poor women, enhancing their incomes and generating positive externalities such as increased self-esteem.[10] However, the impact is not limited to economic well-being only. Studies suggest that other areas, such as, social security, public life and gender dynamics are also keenly affected by the SHG movement in India. One of the key benefits of SHG is increasing women's involvement in public affairs. While the number of women involved in politics is still very low, yet the SHG is found to have been creating a positive trend in the direction of involving more and more women in politics. SHGs not only empower its members but also wield a decisive political role for them. Impoverished women develop greater language skill and financial support to engage in the business of politics.[11] There have also been examples of occurrences of disputes that are being resolved at the initiative of the members of the SHG, thereby ensuring a greater role for women outside the domain of the family. Such activities include initiation of legal action, arbitration of village disputes, settling divorce and others. While so long such dispute resolution mechanisms in villages were dominated by men, now there is seen growing intervention of women SHG members in resolution of such issues which relate to the question of social justice.[12] There has also been a significant impact of SHG in reducing gender related problems like domestic violence, dowry, polygamy and so on. Interestingly, such a phenomenon is inspiring other women to join SHG and reap the same benefits. This is a welcome change in a society in which women have traditionally constituted the most underprivileged and discriminated strata of the society. It is in this context, women's involvement in microfinance movements is important and a sign of change of the society.

Micro-finance scenario in Barak Valley, Assam

Despite numerous attempts of the Central and State Government, Barak Valley, a region in the southern part of Assam in India has remained a classic example of financial exclusion. The region not only lacks in overall development but is also more or less cut off from the mainstream of India due to its acute communication bottlenecks. In such a scenario, the bulk of the rural poor have to depend on agriculture to earn their livelihood which is again of conventional type. In the absence of rapid urbanization and industrialization as well, the option to migrate to urban centres is also limited to rural poor, particularly to women whose mobility is generally restricted by the norms and strictures of traditional society. Thus, the role of SHGs in such a milieu is worth noting and the survey suggests that there are about 5, 904 SHGs operating in the three different districts of Barak Valley. The first SHG in Barak Valley was formed by Bihara Deshabandhu Club which happened to be a NGO. Majority of the SHGs operating in this part of India are formed by women, while there are a few which are of mixed type and consist of both men and women. The main activities that the SHGs perform are weaving, embroidery, making of handmade decorative items, cane and bamboo products like shital pati (mat made of cane), dry fish preparation, fish fermentation and so on. The overall impact of women's participation in SHGs is positive. It has given women exposure, a sense of self-sufficiency, an interest to participate in politics and attend meetings of democratic bodies at the grass-root level, participate in various social activities like eradicating habit of alcoholism among males and also the confidence to take decisions on various family matters like children's education, marriage, health and so on. When these are certain positive changes which are observed in women in certain degrees, there are some constraints too. In Barak Valley, SHGs are mainly promoted by Block Development office. There is no proper training facility for the SHG members. There is wide spread ignorance among the members with regard to the very technicalities of generating fund, seeking support from NGO and so on. However, the silver lining is that strengthening of SHGs does reflect an avenue to empower woman at least in limited sense.

VI. Problems Of Microfinance

Thus, despite having prospect to empower poor, especially women, the process of micro-financing is not free of constraints. A world wide study of microfinance institutions sponsored by Oxfam shows that MFIs in the long run fail to guarantee permanent self-employment of the client, as they fail to ensure that the loans are actually used by their borrowers to start small businesses. A wide power gap exists between man and woman in rural life which makes it difficult for MFIs to target women as real beneficiaries without male intervention. As reported by FAO and UNCDF, women's independent decision to involve in microfinance programmes often leads to the "withdrawal of male support". There is still ample evidence to suggest that loans are not utilised according to the stated intention of MFI. Instead, invested in such ventures in which women have little control and partnership. Besides, there is problem relating to the repayment of loans. The rate of interest of MFIs is generally found to have been higher than what women can afford to return. In a front page news "Gold rush over for microfinance" published in the Economic Times on March 8 2010, it is reported that "a woman who takes Rs. 10000 as loan from a microfinance institutions has to pay Rs. 225 every week. If she is unable to make this payment or has another emergency in the house, she will take a loan. The existing lender will not give a fresh loan till the old one is at least 35 week old, so the woman will borrow from another microfinance institution. That's another Rs. 225 a week. Weighed down, she will take a third loan in a month. Now she has to pay Rs. 675 every week. So, a fourth loan. Such women are forever wondering where their next instalment will come from. Some are working as far as labourers to repay loans. If they are unable to fully repay, they sell cattle, land or jewellery." In fact, there is also evidence that as result of massive outreaches in rural front, a proportion of micro credit beneficiaries with a majority of women, has become worse off with more debts after accessing micro credit through Self-help Groups.[13] The success of microfinance is also found to have been caste and class related. It does not yield uniform benefits to the beneficiaries of the programme.[14] Many micro level studies also raise concerns regarding the process through which groups are formed under Swarnjayanti Gram Swarozgar Yojana (SGSY) and suggest that in many cases members of the group are induced to come together not for self help, but for subsidy.[15] There is still problem with the mushrooming of many microfinance commercial organizations in search of profit. For these institutions, the poor are not seen as human beings having individual identities and needs. Instead, they are seen as data points that add up in their profit statements.[16] Thus, there are multiple challenges to microfinance institutions and the resolution of each of this is important to reach the excluded 46 million non-indebted cultivators who is still not in the fold of micro finance institutions in India.

VII. Conclusions

Thus, the road to microfinance is not full of silver lining. There is cloud as well. But in a world where almost half of the population lives on less than $ 1 a day, microfinance is one of the better tool for poverty alleviation, economic growth and development. It provides a mechanism to reach the billions of the poor, especially women who are discriminated and alienated from the process of development. However, access to resources alone does not translate into empowerment and gender equality unless women acquire the ability to use the resources for self-employment. Thus, the role of micro finance is embedded in the broader social milieu. It has the potential to transform the traditional power relations when implemented and understood in this context. It is a slow, yet promising process. A better understanding of the diversity of women's livelihood and of constraints is important to realize the goal of microfinance.

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[8] "Virtuous Spiral" refers to a tool to indicate the degree of impact of any kind on the clients.

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