

A Study on Conceptual Framework of Micro Finance with the thrust on Rural Development and Women Empowerment

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Structured Abstract

Purpose: To study the conceptual framework of microfinance with the thrust on rural development and women empowerment.

Methodology/Design: The paper is a conceptual one. Information has been collected from different sources viz. reputed books, journals, websites, newspaper etc. Phase wise discussion has been conducted. Ultimately author ended with some concluding observations and policy suggestions.

Findings: Microfinance working efficiently in India through SHGs. It has a significant impact on rural development through rural credit system and women empowerment. Some negative aspects of microfinance have been noticed.

Conclusion: The study reveals that the self-help-groups contribute substantially in pushing the conditions of the female population up and through that chip in poverty eradication as well. But a major challenge for this programme is the viability of non-farm economic activities. It is also difficult to find an economic activity that will yield a rate of profit necessary to cover the interest rate on the loan.

Originality/Value: The novelty of the paper is to analyse the conceptual aspects of microfinance with the thrust on rural development and women empowerment which induced poverty eradication. The study tried to find the lacunas of microfinance system and its scopes of improvement.

Social Implications: If the women are empowered through microfinance and rural development took place, the society will be enriched by holding better livelihood and wellbeing.

Keywords: Microfinance, Rural Development, Women Empowerment, SHG, Non-firm activity, Poverty, Economic Development.

Paper Type: Conceptual Research Paper

Introduction

It is widely accepted that the development process in many parts of the world including India had bypassed the women. The rural women in particular are marginalised and form the bottom of the development pyramid. Series of policy measures have been initiated and programmes implemented since last three decades after UN's declaration of International Women's Year in 1975 by the national governments and international bodies in the sphere of women's empowerment.

Among the various measures targeted towards women's empowerment, the provision of microfinance or small credit assumes crucial importance. Microfinance is a financial service of small quantity provided by financial institutions to the poor. Besides size and clientele group what makes micro credit different from normal credit is that the latter is 'walk in' and the former is 'walk out' business for the financial institution. Besides, credit is provided with collateral substitute. After the successful operation of the Grameen Bank model in Bangladesh, the concept of microfinance has drawn the attention of the development economists all over the world. The microfinance has become of late a development fad in many less developed countries. It has created a euphoria that is unparalleled in the recent history of development practice. India has become home to one of the largest micro credit programmes in the world India's share in the global micro credit market in 2003 was 13 per cent of all clients and 16 per cent of the poorest clients.

In the evolution of micro finance industry there are five models based on different philosophies and target groups. They are (i) Grameen and solidarity model developed in Bangladesh and now popular in South Asia. (ii) Self-Help Groups model popular in India, Indonesia and Kenya. (iii) Individual Credit – mostly priority sector lending in India. (iv)

Community Banking – developed in Latin America and replicated in Africa and Central Asia. (v) Credit unions and co-operatives – popular in Sri Lanka. The self-help group are the latest breeds of the micro finance industries in India. The SHGs proved beyond doubt that they are the fastest growing and most cost-effective micro financial initiatives in the world. In India there have been many significant state initiatives in the major institutional and policy spheres since the early 1990s to promote SHGs and their micro finance activities.

Review of Literature

Micro finance is the interesting field of research for the researchers of social science. In this phase the author will highlight some previous research works to the related field. Karmakar, K.G. (1999) focuses on the concept and functions of SHGs and discusses the micro finance needs of various groups including tribals, the rural non-firm sector, rural women and micro entrepreneurs. Montgomery, H and Weiss, J (2005) surveys the evidence from Asia by carrying out a rigorous study and states that micro finance may have had positive impacts on poverty but its reach to the core poor is very limited. Swope, T (2005) shows that micro finance can lead to an increase in income, better nutrition for families, greater high school attendance, empowerment of women, and alleviation of poverty. Moreover, there is abundant support to demonstrate that micro finance can lift families out of poverty and is also able to expedite the completion of six of the seven millennium development goals. Misra, A (2006) brings out the missing link impact assessment in the Indian context, which is a precondition for poverty reduction on account of the influence of new paradigm of institutional viability under commercial micro finance. Sahoo, A. (2013) conducted a study on SHG and women empowerment. The study focused on the role of SHGs in women empowerment, social solidarity and socio-economic betterment of the poor for their consolidation. He concluded that the monthly income of the women was in the rising trend properly matching with their monthly expenditure. The women's decision making power has immensely enhanced not only in their family but also in the society. Pillai, J. T. (2015) conducted a study on the impact of microfinance through SHGs on the social, economic and psychological empowerment of rural women. This study was based on primary data collected through interviews and meetings with different categories of members of SHGs. Researcher has chosen 60 women purposively from various SHGs of the Mulsi Taluka in Pune District of Maharashtra. The results of the study reveal that on an average, there is a significant increase in women empowerment of the Self Help Groups members. Vishnuvarthini, R. and Ayyothi,

A. M. (2016) conducted a study to examine the role of SHGs in women empowerment. The findings of the study suggest that most of the studies carried out so far regarding the effect of self help group towards the women empowerment show a positive trend. The women employed in the SHEs got better access to health care, socioeconomic development and independent decision making. The study of Naik, M. and Rodrigues, A. (2017), focused on the Socio-economic development of the SHG members and also tries to understand the challenges faced by them. The findings of the study revealed that the participation of women in SHGs had enriched their income, savings, and empowerment. In their study, Gupta, S. and Rathore, H. S. (2020) focused on the socio-economic, and political empowerment of rural women, through the Self Help Groups (SHGs) in Bilaspur Division, Chhattisgarh, India. The finding of the study is that, there is significant empowerment in all three dimensions. Thilagaraj, A. (2020) carried out a study which highlighted on the social advancement strategies and women's empowerment by SHGs in Tamil Nadu in general and primarily in the District of Virudhunagar. The findings of the study indicate that SHG movement has improved the lives of socially and economically backward women. The SHG has also increased their financial independence and security. SHG has been identified as a source to address the financial needs of women. An economic activity of SHG paves the way for women's empowerment in enhancing their socio- economic status, not only in rural areas but also in urban areas.

In the present study the author proposed to study the conceptual framework of microfinance with the thrust on rural development and women empowerment.

Objectives of the Study

The foremost objective of the present study is to discuss about the conceptual framework of Micro Finance with the thrust on rural development and female empowerment. In order to do that the author sub-divided the broad objective into two sub objectives viz. (a) discussion about the theoretical aspects of Micro Finance in Indian scenario and (b) role of Self Help Groups and Micro Finance in rural development and female empowerment. In this context the author proposes to discuss about the theme of Prof. Yunus and his Grameen Bank concept. And also proposes to discuss about the views of Prof. Amartya Sen regarding the role of Micro Finance to alleviate rural poverty.

Methodology

A sophisticated methodology has been framed to carry on the research work smoothly. The research work is purely a conceptual one. To conduct the study, the help of different books, reputed journals, newspapers and websites has been taken. In house magazine, souvenir of Banks, Microfinance Organisations, SHGs provided valuable inputs to stretch complete shape of the work. Finally a conclusion has been drawn on the basis of discussion and analysis. Recommendations have been made for policy suggestion purpose.

Discussion and Findings

Meaning and Nature of Micro Finance

The concept of micro finance can be described as small, short, unsecured lending of money and provision of money and provision of very small loans that are rapid within short period of time. It is essentially used by the low income individuals and households to empowered them economically an enable them financially. The micro finance is used as a sustainable tool to combat poverty. Micro finance can lead to micro solutions to poverty. It can be defined as a set of services comprising the following activities.

Features of Micro Finance

- It is a tool for empowerment of the poorest.
- Micro credit is delivered normally through Self-Help Groups.
- It is essentially for promoting self-empowerment and productivity in formal sector of economy.
- It is generally used for direct income generation and consumption smoothing.
- It is not just a financing system but, a tool for social and economic change, especially for women.
- It provides for seasonality, allow repayment flexibility, and avoid bureaucratic and legal formalities.
- It assists the women to perform traditional roles better and to take up micro entrepreneurship.

Micro Finance and Economic Development

The real idea of micro finance is to help increase income of poor people particularly women.

It is based on the notion that with small scale loans and access to other financial and business services, the poor can help themselves to generate income by creating or expanding small businesses. The fight against poverty has taken many widely differing forms that cannot be readily encapsulated into one single concept. Food and clothes, for example, are needs addressed by the government and donor policies.

Both, however, are elements of the same drive to change the situation of the poor. It is estimated that nearly out of 400-500 million people worldwide, about 80% of those who are in need of financial services are yet outside the mainstream of formal financial systems. In order to reduce the poverty among the village people, Micro Financial Institutions come forward to provide financial services to the needy people. Asia is the most developed continent in the world in terms of volume of Micro Finance Institutions (MFI) activities.

Impact of Micro Finance through SHGs

The programme of micro financing through SHGs with the intervention of NGOs and support from the government has shown many positive impacts on rural poor women. It has become a powerful instrument in providing access of banking services to poor and also in mobilising their small savings. Many studies like Rajasekhar (2000), Kumaran (2001), Kakadhar (1997), Mujumdar (1997), NABARD (2002) highlight that SHGs have inculcated saving habits among the poor, enable the rural households to take up larger productive activities, empower the poor women, decrease the dependence on exploitative local money lenders. A study by NABARD shows that there have been perceptible and of assets, borrowing capacities income generating activities, income levels and increase in savings.

Positive Impacts of Micro Financing

- 1. Increased Savings:** SHGs helped to generate and collect small savings from rural women who were hitherto consider incapable of having any capacity to save. The regular savings, though they were small, provided a fund for rural poor women to fall back on when in need otherwise they were depending on hand outs from others. The SHGs inculcated the habit of regular savings among poor women.
- 2. Access to Credit:** The SHGs have extended the credit facility to the needy women/households who were have no assets to pledge. The system of group guarantee combined with individual responsibility is the innovation that has enabled the credit to be expanded to millions of poor and asset less women across India. The

SHGs to facilitate the rural women to fulfil their credit requirements both meeting emergent consumption needs as well as small production requirements. This has been achieved without requirements of collateral, complex loan and at a low transaction cost.

- 3. Regular Repayment of Loans:** The SHGs have been able to build social collateral and peer pressure to ensure that payments come on time. NPAs is a non-issue in SHGs-bank linkage programme. The SHGs have been successful in building an impersonal markets relation between financial intermediaries and the clients by breaking the earlier patron-client relation.
- 4. Choice of Appropriate Avocations:** The selection of the productive activities by the borrower is as per their own choice and hence the rate of success among SHGs members is very high. This is, perhaps, the main reason for cent percent repayment of loan and also increase in their living standards.
- 5. Commercialisation of Economic Life:** In order to earn money the members of SHGs have to necessarily increase commercial production. What was formerly produced for domestic consumption or for gifts now began to produce for marketing after forming the SHGs. The system of loans and repayment invariably encourages production on commercial principle. This has resulted in the growth of market and development of the spirit of capitalism.
- 6. Secular Capitalistic Ethic:** The SHG are formed mostly among the women of same religion and inter caste people. The successful SHGs are found among Muslims, Hindus, Christians and Buddhists. Besides, micro credit with its strict discipline of saving and repayments represent a much needed shift from patron client relation to impersonal market relation of capitalisation. The changed economic climate in the country has articulated new gender relations. Today women are more honoured and respected when they are earning income than when they were in seclusion or engaged in household chores.
- 7. Changed Life Styles:** The long standing SHGs brought attitudinal change among their members. By making their activities commercial, the SHGs created a sense of productive partners among members. They are trained in discharging group responsibilities. Though majority of them are illiterate they have learnt keeping accounts. The SHGs imbibed in them the sense of democratic spirit and secular

approach. These attitudinal changes of women have brought perceptible changes in social, cultural and political life of the rural folk.

Problems of Micro Financing SHGs

Although there is remarkable success in SHGs micro financing the movement has its own constraints also.

- 1. Small Scale Operation:** The SHGs collect savings and advance loan of a meagre amount. There is a need for upscale their activities. The performance of SHGs cannot be measured primarily in terms of the repayment rate and continuity and sustainability. The up scaling of their financial services warrants the consideration of certain vital development issues like efficiency, productivity and opportunity cost of using the financial resources.
- 2. Winners and Losers:** The success of a woman judged by her conformity to norms of SHGs i.e. regular savings, timely repayment, work to earn income, the ability control the household and particularly the husband's expenditure. This being the case there are many women who may be called as winners and also some women who are losers. Some women are not able to repay their loans and make regular savings. There are instances of women who borrowed at high rates of interest from money lenders in order to keep up wit their SHGs repayment commitments. This is because when hundred and more women start the commercial production of goods and services in the same line, it is inevitable that some will not be able to find market and make a profit. Those who fail to make a profit will be beakers among them and they are labelled as losers. Equality of opportunity does not yield equality of will being.
- 3. Lack of Sustainability and self Sufficiency:** The majority of the SHGs are too small, scale of their business is not viable as the members are very poor. The groups which found self-sufficient and sustainable usually were formed by the rich among the poor people, who clustered just above the poverty line. Hence there is a trade off between sustainability and reaching the poorest of the poor. A few studies suggest that the SGHs that financially self-sufficient and sustainable tend to be those that do not serve the poorest borrowers. Many of the SGHs are still dependent on subsidy or grant from the donor agencies or on confessional funds from the external agencies. A study has revealed that only 33 per cent of the SGHs are survived after three years of their existence.

- 4. No Security:** The SGHs work on mutual trust and confidence of the members. The deposits of the SGHs are not secured and safe. The SGHs are not allowed to accept deposits from non-members. There is no statutory redressal mechanism to resolve disputes.
- 5. Poor Impact on Income and Employment:** The SGHs are successful in imbibing banking habits among their members. But the impact of micro financing on the income, employment and levels of living of their members marginal. Many of them are not able to cross the poverty line. It requires an additional injection of investments.

Professor Mohammad Yunus: Empirical Evidence

Prof. Mohd. Yunus, the eminent Professor of Economics, Chittgong University and father of Grameen Bank, the Nobel Peace Prize has thrown its weight behind the idea that in micro credit we might have the elusive magic wand which will eventually remove poverty, liberate women and achieve the objectives of rural development. According to him, the best theories of economics are meaningless if they cannot be practically applied, and that which can remove poverty and give people dignity of existence is the best economics. He has shown to the world that the poor are credit worthy by having a near 99 per cent repayment record in his Grameen bank which alone today disburses more than Rs. 300 crore of loan every year and has more than two third of its funds as self generated.

With a humble beginning of lending a mere US \$27 to 42 poor victims almost two decades back. Prof. Yunus Gramin Bank, has grown to almost 1000 plus branches in Bangladesh with 2 million loans, amounting to a combined worth of staggering US \$ 2 billion. Through his banking operations, he has shown to the world that markets are not only made of the top 20 per cent of population but also of the bottom 80 per cent.

Almost 90 per cent of Grameen Bank borrowers are poor women and the bank holds a relived loan repayment of 98 per cent. Yunus bank has not only provided income generating loans in millions without any collaterals and student loans to the poorest of poor families, but also has been instrumental in building 6 lakh homes.

According to reports, an overwhelming 5 per cent of his borrowers come out of poverty every year. It is through his efforts that poor children are now healthier, education and nutrition level are higher, housing conditions are better, child mortality has declined by 37 per cent, the

status of women has been enhanced and the ownership assets by poor women including housing has improved dramatically.

Rural development is primarily concerned with addressing the needs of the rural poor in the matters of sustainable economic activity. It aims at optimally utilizing the gender dimensions of development especially in the area of income generating activities, total sanitation and water conservation, poverty alleviation can be achieved through credit linkages for identified income generating activities with focus on the self help group as the basic unit for social and economic development.

The success story of Bangladesh has promoted Indian national government to introduce two major schemes in the area of rural development such as Wsarna Jayanti Gram Sworozgar Yojana and Sampooma Gram Sworozgar Yojana. SGSY is holistic programme of micro enterprises, covering all aspects of self-employment, such as formation of Self Help Groups, capacity build up, technology credit and marketing. On the other hand, SGRY is a centrally sponsored scheme launched in 1999 at establishing a large number in the rural areas built upon potential of the rural poor.

Micro Finance and Women Empowerment

Micro Finance is a hard term to define precisely. If a Self Help Group gives money to someone to buy a cycle rickshaw, it is considered micro finance, if a commercial bank does the same thing; it is not considered micro finance. In India, the term is generally understood to mean small loan given to the poor by the NGOs to start small business. The world over, micro finance is synonymous with the Garmeen bank in Bangladesh. In Bangladesh, micro finance arose in direct response to the failure of the nationalized commercial banks to cover to the needs of the poor and marginalized.

In India, Micro Finance is dominated by SHGs-bank linkage programme aimed at providing financial services to the unreached poor. Micro financing has turned out to be an effective strategy for institutional financing agencies. Through group approach, small loans can be made available to the poor, creates savings habits and minimize extravaganza and for financial institutions.

SHGs dominate the micro finance scenario and it focusing more on poor women. Hence micro finance is emerging as a powerful instrument empowerment of poor women both

socially and economically. It aims at providing cost effecting mechanism for financial services to the undetected poor women.

Empowerment is a process of change by which individuals or groups gain power and ability to take control their lives. It involves increased wellbeing, access to resources, raising self-confidence. Increase participation in decision making and control over resources and live.

The women empowerment has received extensive reorganization as a strategy of growth and poverty reduction. Before 1990, credit schemes for rural women were almost negligible. The concept of women's was recognized by woman informal sector. In modern economy the micro credit approach for women is considered as the best strategy to empower women economically. Though micro credit the poor women can rotate their funds to build economic capacities. The co-relation between credit and empowerment is always positive which has been established in all research studies. Prof. Amartya Sen in his book "Public Action to Remedy Hunger" in 1991 has also recognized the role of micro finance in women empowerment and poverty reduction.

Conclusions

The above discussion reveals that micro financing programme through SHG is working very efficiently, but a major challenge for this programme is the viability of non-farm economic activities. It is also difficult to find an economic activity that will yield a rate of profit necessary to cover the interest rate on the loan. Since market for non-farm activities is in the urban areas, hence, when these activities are taken up by rural women the produced goods cannot meet the standards of the urban market. Moreover, the distance also imposes a cost of marketing, which these women cannot bear. It is also seen that at macro level, there is the problem of sustaining the business that could engage much larger number of people. Unless there is a proper marketing system, merely producing the goods would not help. If the goods produced by the rural poor are sold at a right time with profitable price, then the poor will be able to improve their savings potential, credit handling capacity and access to financial institutions, inculcate entrepreneurial skill, develop an urge for investment and also risk taking attitude through SHGs. Thus micro-financing can do wonders to the rural poor living even in remote villages in improving their economic condition and protecting them from the clutches of the village moneylenders. Microfinance is playing a significant role in alleviate poverty and rural development. Since women are the sole family caretaker, proper emphasis

should be given to the rural women and for empowering the rural women finance is required. Microfinance to the rural SHGs is a way to raise the income level and improve the living standards of the rural women. The Self Help Groups have proved the way for economic independence of rural women. Thus, it can be concluded that the self-help groups contribute substantially in pushing the conditions of the female population up and through that chip in poverty eradication as well.

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