THE ROLE OF SELF-HELP GROUPS AND MICROFINANCE IN WOMEN EMPOWERMENT - A STUDY

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Abstract

The present study assesses the benefits of microfinance through self-help groups, while the benefits in terms of higher income, consumption, and savings matter for the poor, the focus here is broader, as an attempt is made to also assess some key dimensions of women's empowerment- defined broadly as expansion of freedom of choice and action to shape their own lives. While the targeting of microfinance through SHGs was unsatisfactory in terms of an income criterion, it was better in terms of other indicators of deprivation such as low caste, landlessness and illiteracy. What is, however, noteworthy is that the loans were used largely for health and education of children and for production-related expenses-especially by the disadvantaged. Using different methods and data sources, various dimensions of empowerment were confirmed. Some of the mechanisms involved in it were identified and assessed. Not only do SHGs benefit from the presence of networks, the former also contribute to trust, reciprocity and associational capital (e.g. through strengthening of local institutions). Domestic violence was reduced. However, greater responsibilities for women also involved longer hours of work.

Keywords: Self-Help Groups, Micro Finance, Financial Inclusion, Credit, Savings.

INTRODUCTION

"Nearly forty years after nationalization of banks, 60% of the country's population do not have bank accounts and nearly 90% do not get loans," India has been currently the second-highest number of financially excluded households in the world. While, 40% of India's population has bank accounts, and about 10% have life insurance cover, a meagre 0.6% has non-life insurance cover. Financial services actively contribute to the humane & economic development of the society. These lead to social safety net & protect the people from economic shocks. Hence, each & every individual should be provided with affordable institutional financial products/services popularly called **"**Financial Inclusion".

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial products & services are identified as basic banking services like deposits accounts, institutional loans, access to payment, remittance facilities & also life & non life insurance services. The following are the denotation & connotation of financial inclusion in India.

1. Affordable credit
2. Savings bank account
3. Payments & Remittance
4. Financial advice
5. Credit/debit cards
6. Insurance facility
7. Empowering SHGs(self help groups)

An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. An all-inclusive financial system enhances efficiency and welfare by providing avenues for secure and safe saving practices and by facilitating a whole range of efficient financial services like easy day to-day management of finances, safe money transfer etc. The govt. of India as well as the banking industry has recognized this imperative and has undergone fundamental changes over the last two decades. In fact, in order to address the issues of financial inclusion, the Government of India constituted a "Committee on Financial Inclusion" under the Chairmanship of Dr. C. Rangarajan. Not only in India, but financial inclusion has become an issue of worldwide concern, relevant equally in economies of the underdeveloped, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives instead of a select few.

The Self Help Groups (SHGs) methodology was first developed in Karnataka in 1992 to link rural population to the formal financial system. Now about 8.6 crore households have access to banking through SHGs. Linking SHGs with bank finance has been identified as a key tool towards achievement of holistic inclusive growth.

Despite the vast expansion of the formal credit system in the country, marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks, continues to depend on money lenders. In order to minimize the dependence on money lenders, NABARD, APRACA and ILO have carried out a study and brought out the concept of SHGs and launched a pilot project supported by refinance. The criteria would broadly be adopted by NABARD for selecting SHGs:

- Membership of the group could be between 10 to 20 persons.
- The group should be in existence for at least six months.
- The group should have actively promoted the savings habit. Groups could be registered or unregistered.

WHAT IS MICRO CREDIT?

Foreseeing the need of sustainable development for the improvised; Muhammad Yunus, the father of microfinance, popularized the concept of micro credit. Micro credit, being part of financial inclusion, is defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards (as per RBI Master Circular, 2008). In India, the most flourishing testing ground of social entrepreneurship has been in the area of micro credit, and more recently microfinance. Culling from international literature empirical features of micro credit are:

- Quantum of loans is small,
- No collaterals are required,
- Rural and urban poor are the major borrowers,
- Ideally loans are used for income-generation through market-based self-employment,
- Loans are administered through borrower groups,
- Owing to NGOs' controlling disbursement as well the basic terms and conditions for sanction, they sometimes become private transaction. Less than 15 per cent of the households have any kind of insurance.
- Bankers feel that it is fraught with risks and uncertainties.
- High transaction costs.
- Unfavorable policies like caps on interest rates which effectively limits the viability of serving the poor.
- Lack of an appropriate legal vehicle.

FRAMEWORK FOR MICRO CREDIT

In India, there are two routes through which micro credit is provided to borrowers. The first is the "Bank-SHGs linkage programme" by which National Bank for Agriculture and Rural Development (NABARD) and commercial banks promote the formation of SHGs. Banks lend directly to SHGs, which, in turn, open group savings accounts in the banks. The second route is the "Micro Finance Institute (MFI) model", is the most important institution in the chain.

WHY MICRO CREDIT?

Providing credit is in the top priority for policy makers to achieve inclusive growth. Unless we are able to meet the credit needs of our people, we can never hope to grow in a sustainable way. Despite multiple agencies giving credit to the rural sector, the critical gap in rural credit still exists resulting in the exploitation of the rural masses by money lenders. The status of micro credit is as follows:

- Considerable gap between demand and supply for all financial services.
- Majority of poor are excluded from financial services.
- About 56 per cent of the poor still borrow from informal sources.
- 70 per cent of the rural poor do not have a deposit account.
- 87 per cent have no access to credit from formal sources.

CONCEPT OF SELF-HELP-GROUPS (SHGs)

The SHG is an informal organization of persons from the homogeneous poor section of the society and it is controlled and managed by the members itself. It is an association of 10 to 20 local individual members who are financially weak and from the same socio-economic backgrounds. These groups start with saving and not with credit; the group then uses its savings to give loans to members to meet their emergency and other needs.

The members decide on savings per members, maximum size of loans, guarantee mechanisms in loan sanction. The SHG is the platform or forum to the members to come together for emergency, disaster, social reasons, economic support to each other have ease of conversation, social interaction and economic interactions. The Self-Help Group (SHG) is a viable organized setup to disburse micro credit to rural women for the purpose of making them enterprising for enabling them into various entrepreneurial activities.

CONCEPT AND EVALUATION OF MICRO FINANCE

Micro finance is a broad term that includes deposits, loans, payment services and insurances to poor. The concept of micro finance and micro credit are used interchangeably. But micro credit does not include savings; hence micro finance is more appropriate term. Microfinance is a term used for the practice of providing financial services such as micro credit, micro savings and micro insurance to poor people. The Task Force on Supportive Policy and Regulatory Framework for Micro Finance has defined Micro Finance as "the provision of thrift, credit and other financial services to the poor in rural, semi-urban and urban areas to help raise their income levels and improve their living standards". Micro Finance is a participative model that can address the needs of the poor especially the women. Microfinance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. The concept of lending extremely small amounts of capital to poor entrepreneurs has developed by Mohammed Yunus of Bangladesh during the 1970's. He has worked out various schemes for upliftment of weaker section of rural people. Finally, he launched the scheme of Self Help Group and played a key role in getting loan from Gramin Vikash Bank of Bangladesh in the year 1975 for which of his act he is known as the pioneer of Self Help Groups. Since then several microfinance institutions came up and have succeeded in reaching the poorest of the poor, and have devised new ground-breaking strategies with time for the fulfillment of their vision.

These included the provision of collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers are organized into groups and peer pressure among them, which reduced the risk of default. The success of micro-credit in Bangladesh had made it a popular poverty alleviating strategy in underdeveloped and developing countries. The micro-credit summit held at Washington in 1997 launched a nine year global campaign to reach 1000 million poor families throughout the world by 2005. To make it a memorable event the year 2005 was celebrated as year of micro- credit. It's a unique effort itself where the developed and developing countries came forward to a global cause that is appreciable. In the development paradigm, the micro-finance has evolved as need based policy and programmes to cater to the so far neglected target group (women, poor, rural, deprived etc). Its evolution is based on the concern of all developing countries for empowerment of the poor and the alleviation of poverty. Development organizations and policy makers have included access to credit for poor people as a major aspect of many poverty alleviation programmes. Micro finance programmes have, in the recent past, become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation, further more certain micro finance programmes have gained prominence in the development field and beyond the basic idea of micro finance is simple if poor people are provided access to financial services, including credit they may very well be able to start expand micro enterprise that will allow them to break out of poverty.

During the last two decade, microfinance has gained a lot of significance and momentum and now India occupies a significant place and a niche in global microfinance through promotion of the SHGs under SHG-Bank Linkage (SBL) programme and the Microfinance Institution (MFI) model8. In the eleventh five year plan proper emphasis has given for inclusive growth and faster reduction of poverty. Micro finance through SHGs is the vital tool for reducing the poverty. The NABARD is the main initiator of the SHG movement since 1986-87. Now a day's both central and state governments, nationalized commercial banks, regional rural banks, cooperative banks, NGOs, non-banking financial corporation (NBFC) etc. have joined in the SHG movement as promoters.

WHAT IS NEEDED TO BE DONE?

Micro credit institutions should fund their loans through savings accounts that help poor people manage their myriad risks. Governments should provide an enabling legal and regulatory framework which encourages the development of a range of institutions and allows MFI to operate as recognized financial intermediaries subject to simple supervisory and reporting requirements.

Usury laws should be repelled or relaxed and MFIs should be given freedom of setting interest rates and fees in order to cover operating and finance costs from interest revenues within a reasonable amount of time. MFIs on its own are unlikely to be able to address formidable challenges of underdevelopment, poor infrastructure and governance.

It needs:

- Appropriate legal structures for the structured growth of microfinance operations.
- Ability to access loan funds at reasonably low rates of interest.
- Appropriate loan products for different segments.
- Ability to innovate, adapt and grow.
- Bring out a compendium of small and micro enterprises for the microfinance clients.
- Ability to attract and retain professional and committed human resources.
- Identify and prepare a panel of locally available trainers.
- Ability to train trainers.
- Capacity to provide backward linkages or create support structures for marketing.
- Finding adequate levels of equity for the new entities to leverage loan funds.

Micro credit is not yet at the centre-stage of the Indian financial sector. The knowledge, capital and technology to address these challenges however now exist in India, although they are not yet fully aligned. With a more enabling environment and surge in economic growth, the next few years promise to be exciting for the delivery of financial services to poor people in India. Micro credit will continue to develop into an important delivery mechanism to reach out to the poor and achieving financial inclusion and empowerment of women. Its role in enhancing human capital is considerable. The objective of the micro credit initiatives must be to evolve the bankable clients to creditworthy clients, thus making concerns about poverty irrelevant.

CONCLUDING OBSERVATIONS

Some observations are made from a broad policy perspective.

While the targeting of microfinance through SHGs was unsatisfactory in terms of an income criterion, it was better in terms of other indicators of deprivation such as caste, landlessness and illiteracy. What is, however, noteworthy is that the loans were used largely for health and education of children and for production-related expenses-especially by the disadvantaged. The rates of return on such investments were high. Little, however, can be said about their sustainability. Savings mobilization through SHGs was highly effective too- especially in a context of vulnerability of rural households to a range of idiosyncratic and covariant risks, and ineffectiveness of informal social networks in protecting them against such risks. More significantly, using different methods and data sources, various dimensions of empowerment were confirmed. Some of the mechanisms involved in it were identified and assessed. Not only do SHGs benefit from the presence of networks, the former also contribute to trust, reciprocity and associational capital (e.g. through strengthening of local institutions). Domestic violence was reduced.

However, greater responsibilities for women also involved longer hours of work. In conclusion, to confine impact assessment of microfinance to conventional economic criteria of rates of return, and financial sustainability of MFIs would not be just narrow but misleading as well. The benefits through women's empowerment are substantial and reinforce the case for microfinance through SHGs on both equity and efficiency considerations.

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