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RURAL DEVELOPMENT THROUGH MICROFINANCE AND WOMEN EMPOWERMENT

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ABSTRACT

Rural development is an integral process of economic growth and social progress. It implies the development of rural sector which has many dimensions. The role of microfinance and women empowerment in this context is important because it provides an environment of sustainable improvement in the quality of life of rural womenfolk enabling them to form S.H.Gs, and providing them equal opportunities in decision making process and participation in community life. Rural development and poverty reduction are commonly related to the issue of rural employment. Rural households livelihood strategies comprise several options including farming and non-farm activities, local self-employment and wage employment, and migration. Microfinance has proven to be an effective and powerful tool for rural development and poverty reduction. Like many other development tools, it has sufficiently penetrated the poorer strata of society.

KEYWORDS

Microfinance, S.H.Gs, Rural Development, Poverty, Women Empowerment.

INTRODUCTION

In an age of globalization and increasing global disparity between rich and poor, the world has seen the rise of a new and celebrated poverty-fighting strategy in past decades: microfinance. Microfinance organizations, by definition, provide financial services to poor entrepreneurs, most commonly small loans to help poor individuals start or grow small businesses. Microfinance also includes the provision of other services such as savings opportunities and micro-insurance to the poor. Since its beginnings in the 1970s, microfinance has spread exponentially worldwide with the backing of countless governments and influential international organizations such as the United Nations and the International Monetary Fund (IMF). This poverty-fighting strategy has also specifically been praised for its sustainability—instead of functioning as a charity, it aims to provide poor individuals with the tools to pull themselves out of poverty and sustain their financial success. The great faith that the world has placed in microfinance in recent years has made it seem the panacea for world poverty. Its impact on the alleviation of poverty on a grand scale has yet to be assessed, but important changes have occurred at the individual level for microfinance clients as they improve their financial stability and standard of living through small enterprise.

Microfinance has become popular not only for its alleged ability to combat poverty but also for its potential to empower the microfinance client, especially those clients who are women. In many of the developing countries where microfinance has become prevalent, gender inequalities play a powerful role in societal structure and contribute greatly to the nation's poverty and underdevelopment. The possibility of empowering women and granting them greater economic, psychological, and social agency through a simple loan therefore makes microfinance a compelling initiative at the micro and the macro level. Empowering an individual woman in a third world nation not only grants her greater independence and control over her life, but may also contribute to the wellbeing of her family and in part to the alleviation of poverty in her country. It is on this platform of the simultaneous alleviation of poverty and empowerment of women that many microfinance organizations have promoted their work and gained financial support. But much research still remains to be done on microfinance's individual and collective impact among the poor. We must continue to investigate the exact ways in which microfinance works as a tool to reverse poverty and to empower the individual before we can make claims on its worldwide success.

Microfinance is not a new development. Some developed countries as well as developing countries particularly in Asia have a long history of microfinance. During the eighteenth and nineteenth centuries, in number of European countries, microfinance evolved as a type of the informal banking for the poor. Informal finance and self-help have been at the foundation of microfinance in Europe. The early history of microfinance in Ireland can be traced back to 18th century. It is a history of how self-help led to financial innovation, legal backing and conductive regulation, and creating a mass microfinance movement. But the unpleasant regulations prompted by commercial banking brought it down. The so-called Irish loan funds appeared in early eighteenth as charities, initially financed from donated resources and offering interest free loans. They were soon replaced by financial intermediation between savers and borrowers. Loans were granted on short-term basis and instalments were scheduled on weekly basis. To enforce the repayment, monitoring process was used.

In Latin America and South Asia, the microfinance has grown out of experiments, but the best-known start was in Bangladesh in 1976, following a widespread famine in 1974 and a hard-fought war of liberation in 1971. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as an experiment, on the outskirts of Chittagong University campus in the village of Jobra. The inspiration of Grameen Bank came to Muhammad Yunus' mind when he lent the equivalent of \$26 to \$42 to exploited women who were working as bamboo furniture maker. He saw that, they were enthusiastic about it and paid back their loans on time. In the beginning, Muhammad Yunus focused the activities of Grameen Bank mainly on savings and small loans, and decided to put the interest rates high enough to cover the expenses. Finally yet importantly, he asked borrowers to organize themselves in solidarity groups of five people (who have to meet every week in order to repay their loans and to exchange their opinions). Inspired by the success of his experiment, he decided to spread out this system to other villages in Bangladesh. In 1983, this institution became a bank. Today it operates in almost 36000 villages and serves more than 3500000 people. On 13th October 2006, the Nobel Peace Prize went to Muhammad Yunus and Grameen Bank, the microfinance institution he founded 30 years ago. Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many other countries. Loans to poor people without any financial security had appeared to be an impossible idea. Eventually we are in a situation, in which Muhammad Yunus, the founder of Grameen Bank, tells us the goal spread of micro-credit and finance, which give us the hope, *"Maybe our great-grandchildren will go to museums to see what poverty was like"*.

DEFINITION AND SCOPE OF MICROFINANCE

Microfinance is the provision of financial services to low income clients who traditionally lack access to banking and related services. It helps in reaching out to the vulnerable segments of the society like women, SC, ST which are outside the purview of formal institution. It is a form of financial development that has primarily focused on alleviating poverty through providing financial services which help poor to take up income generating activities and secondly it focuses on women empowerment.

Micro-finance is the provision of a broad range of financial services such as credit and savings to poor and low-income household and their micro enterprises (Rhyne, 2003). Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Micro loans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal sector.

Micro finance institutions (MFIs) consist of agents and organizations that are engaged in relatively small financial transactions using specialized, character based methodologies to serve low-income households, micro enterprises, small farmers, and others who lack access to the banking system. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus the definition of micro finance often includes both financial and social intermediation. Although some MFIs provide enterprise development services such as skills training and marketing, and social services, such as literacy training, proper home management and health care, they are not generally included in the definition of micro finance.

RURAL WOMEN EMPOWERMENT THROUGH MICROFINANCE

Microfinance is a powerful tool to assist the stumbling economies to recover and strengthen, thereby making the lives of millions of poor people more self-respecting and dignified. Microcredit has made women more productive by providing them opportunity to be self-dependent in terms of their finance, helping them earn, making them aware of their rights and making them independent which in turn has empowered them. Women are now included into socio-economic activities of the country, they are contributing to family income and are a part of decision-making process in the family and they are able to exercise more control over their reproductive rights.

Microfinance is a new and dynamic approach which has aided in global poverty eradication and empowerment of women by making them financially self-reliant. Professor Yunus, Managing Director of Grameen Bank, promoted it in 1974 in Jobra, a village in Chittagong of Bangladesh, and it has spread all over the world. It is a program that extends small loans and other financial and business services to very poor people for self-employment projects that generate income, thereby enabling them to take care of themselves and their families.

Microfinance helps in integrating the financial needs of poor people into a country's mainstream financial system. It has been acknowledged that the development of a healthy national financial system is an important goal and catalyst for the broader goal of national economic development, which microfinance serves very well. Microfinance helps the poor, including women in not just obtaining loans but also inculcating in them habits of savings, investing in insurance policies and money transfer services. It helps them to raise income, be self-dependent, build up assets and have a better life and better standard of living.

A majority of microfinance programmes target women with a goal to empower them. Keeping up with the objective of financial viability, an increasing number of micro finance institutions prefer women members as they believe that they are better and more reliable borrowers. **Shri Mahila Griha Udyog Lijjat Papad or Lijjat** is an organization that has acted as a catalyst in empowering poor urban women across India during the last four decades. Starting as a small group of seven women in 1959, today Lijjat has more than 40,000 members in 62 branches across 17 Indian states. Only women can become members of Lijjat.

Rural India represents a vast opportunity with its largely unmet demand for financial services. ICICI Bank seeks to tap the significant rural commercial opportunity as well as create a social impact on the rural poor. The primary function of RMAG is to provide financial solutions to the vast rural hinterland. The group is thus responsible for all of ICICI Bank's rural, micro-banking and agri-business initiatives.

The Government, with the help of institutions like National Bank for Agriculture and Rural Development (NABARD) started **Self Help Group (SHG)** Bank linkage programme. Based on the concept of "self-help," small groups of women have been formed into groups of ten to twenty and operate a savings-first business model whereby the member's savings are used to fund loans. The rise of SHGs and more formal SHG Federations coupled now with SHG Bank Linkage have made this a dominant form of microfinance in addition to microfinance institutions (MFI). The significant policy announcements from the Government of India and the Reserve Bank of India have supported growth of micro finance sector in India. Today, it is estimated that there are at least 2 million SHGs in India.

MICRO FINANCE AND EMPOWERMENT OF WOMEN

The importance of women to the economic development of India was first recognized during the country's struggle for independence. Empowerment is a social action process that promotes participation of people, organization and communities in gaining control over their lives in their community. There is urgent need of empowering women especially in rural areas. The formation of Self Help Group and Micro Financing will enhance their socio-economic position in the society. Small loans can make good business sense among the women. It has been noticed that women in particular stand to gain a lot from micro-finance because it gives them an independent means of generating wealth and becoming self-reliant in a society that does not offer them much scope for entrepreneurship. And since it is women who run the household, a higher standard of living for women ensures better governance and a healthier and more prosperous future for the children and a better future for the nation. The success of micro credit initiatives has often been attributed to their particular focus on empowering women and encouraging their self-reliance through developing their own means of income. Various case studies show that there is a positive correlation between credit availability and women's empowerment. It is observed that majority of rural women who are associated with self-help group activity positively succeeded to gain themselves empowered.

Women in rural India lived in virtual isolation, unable to access even the most basic of services. But, with the formation of Women's Self-Help Groups, these women are now achieving social and physical mobility. It is recognized that while the empowerment of women is a process that will not happen automatically, SHG is a suitable means for the empowerment of women. The impacts of SHGs on socio-economic status of women were found significant.

Microfinance programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women's empowerment. Where financial service provision leads to the setting up or expansion of micro-enterprises there are a range of potential impacts including:

- Increasing women's income levels and control over income leading to greater levels of economic independence.
- Access to networks and markets giving wider experience of the world outside the home, access to information and possibilities for development of other social and political roles.
- Enhancing perceptions of women's contribution to household income and family welfare, increasing women's participation in household decisions about expenditure and other issues and leading to greater expenditure on women's welfare.
- More general improvements in attitudes to women's role in the household and community.

ROLE OF SELF HELP GROUPS

The SHGs of rural women consists of members who are the poor, having low saving capacity and who depend on money lenders for meeting their consumption needs and social obligations. Formation of women into self help groups paved a way to develop their economic standards, thereby building self confidence. Women in SHGs have been encouraged by the government as well as NGOs to undertake self employment ventures with locally available resources. Availability of micro-credit helped SHG women a lot and many women came forward and established micro enterprises. At present a number of NGOs and financial institutions have been offering micro finance especially to rural women micro entrepreneurs. They also motivate training programmes to develop their entrepreneurial skills and capabilities. Specific trainings in manufacturing or service sector are available for the prospective rural women micro entrepreneurs. These institutions have been encouraging women to start micro enterprises. As a result micro entrepreneurship is gradually growing importance among the rural women.

ROLE OF NABARD

NABARD was established as an apex institution, accredited with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural India with a vision to facilitate sustained access to financial services for the unreached poor in rural areas through various Micro Finance innovations in a cost effective and sustained manner. NABARD has been working as a catalyst in promoting and linking more and more SHGs to the banking system. The pioneering efforts at this direction were made by NABARD. In 1991-92, a pilot project for linking about 500 SHGs with banks was launched by NABARD in consultation with the RBI. It is considered as a landmark development in banking for the poor. On the recommendation of the NABARD

the Reserve Bank advised that the banks financing of SHG would be reckoned as part of their lending to weaker sections. As a follow up of the recommendations of the NABARD Working Group, the RBI took some measures in 1996 to give a thrust to micro finance based lending. Banks were advised to consider lending to the SHGs as part of their mainstream credit operations, to identify branches having potential for linkage with SHGs and provide necessary support services to such branches. Further, it was decided that NABARD would continue to provide refinance to banks under the linkage project at the rates stipulated from time to time.

CHALLENGES TO EMPOWERMENT THROUGH MICROFINANCE

While the empowering potential of microfinance programmes remains strong, the evidence of challenges, ineffectiveness and limitations of the potential is equally compelling. Although microfinance has the ability to empower women, the connection is not straightforward or easy to make. Significant research and much anecdotal evidence suggest that this link is certainly not automatic (Hunt and Kasynathan 2001, 2002; Kabeer 1998; Mayoux 1998). Just handing money to women and giving them access to financial assets and resources creates a new set of challenges for women, thus balancing the experience of empowerment with the experience of extra burdens. Others argue more strongly that access to microcredit actually impacts women's empowerment experience negatively by leading to a certain kind of disempowerment. Yet another set of analyses indicates that the goals of microfinance and its empowering potential are intrinsically of conflicting natures. The argument is that focusing on women's empowerment leads to dilution of efficiency and sustainability of MFIs, and this results in reluctance to focus on women's empowerment when designing their systems and programmes. Impressive literature exists that records the challenges and gaps between the goals and the empowerment potential of microfinance programmes that target women. These challenges emanate in the economic, politico-organizational, ideological and cultural domains within which microfinance institutions and microcredit lending programmes are embedded. This section discusses the multidimensionality of these challenges.

ECONOMIC AND POLITICO-ORGANIZATIONAL CHALLENGES

The central issue here is whether the economic goals of efficiency and sustainability of MFIs are rationally compatible with the goals of empowerment. There are arguments pro and con.

Those who support a finding of compatibility have argued that targeting women is in fact more judicious, because: (i) women's repayment rates are higher than men's; (ii) women are more cooperative; and (iii) awareness of what clients have and what they need – and empowering them – can actually increase sustainability, because MFIs can offer loans that are appropriate and sustainable (Cheston and Kuhn 2002).

Those who emphasize that it is incompatible to aim for efficiency while pursuing the empowerment of women argue that institutions that place a priority on serving women also have a tendency to place social goals ahead of efficiency, leading to poorer financial performance (Cheston and Kuhn 2002).

While there are certain studies showing that better lives can be built by integrating microfinance programmes with programmes such as education and health (Dunford 2001, 2) certain microcredit programmes such as WWF in India and Women's World Banking in the Dominican Republic do combine empowerment goals with goals of financial sustainability – the economic and organizational concerns of MFIs place great constraints on realizing the empowerment potential of micro financing.

OTHER PROBLEMS AND CHALLENGES

Surveys have shown that many elements contribute to make it more Difficult for women empowerment through micro businesses. These elements are:

- Lack of knowledge of the market and potential profitability, thus making the choice of business difficult.
- Inadequate book-keeping.
- Employment of too many relatives which increases social pressure to share benefits.
- Setting prices arbitrarily.
- Lack of capital.
- High interest rates.
- Inventory and inflation accounting is never undertaken.
- Credit policies that can gradually ruin their business (many customers cannot pay cash; on the other hand, suppliers are very harsh towards women).

CONCLUSION

For the last two decades, Indian economy has been growing at a faster rate but all have not benefited by this excellent growth. Liberalisation, privatisation and globalization have given a tremendous opportunity to develop but this development has been restricted to a certain groups of people. This has resulted in an increasing gap between the haves and have-nots of the society. In this context, microfinance can help reduce this disparity and lead to a more equitable growth of the country. Savings-driven microfinance environment is feasible in rural as well as urban areas. If properly regulated and supervised, they have great potential in poverty alleviation and development, both in rural and urban areas. Most of the world's poor lack access to basic financial services that would help them manage their assets and generate income. With the inefficient functioning of the Development Banks in the rural areas to the extent that is required, some forms of local financial services also disappeared. In this context, microfinance has emerged to fulfil the demand of rural credit.

The emerging microfinance revolution with appropriate designed financial products and services enable the poor to expand and diversify their economic activities, increase their incomes and improve their social well-being.

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