EMPOWERMENT OF RURAL WOMEN BY MICRO-FINANCE & MICROCREDIT SCHEME

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ABSTRACT

In India, empowerment has cover large scale. Microcredit or microfinance has same meaning. Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of.millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. Microcredit is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor charity is not the answer to poverty. It only helps poverty to continue. Microcredit belongs to the group of financial service innovations under the term of microfinance, other services according to microfinance is micro savings, money transfer vehicles and micro insurance. Microcredit is an innovation for the developing countries. Microcredit is a service for poor people that are unemployed, entrepreneurs or farms who are not bankable. The reason why they are not bankable is the lack of collateral, steady employment, income and a verifiable credit history, because of this reasons they can´t even meet the minimal qualifications for a ordinary credit. Microcredit has widely been directed by the non-profit sector while commercial lenders require more conventional forms of collateral before

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making loans to microfinance institutions. The most of the microcredit institutions and agencies all over the world focuses on women in developing countries. Observations and experience shows that women are a small credit risk, repaying their loans and tend more often to benefit the whole family. In this article definite that microfinance scheme improves rural women status.

Keywords: *Empowerment1*, *Ngo2*, *ADB-3*, *History 4*, *MFI-5*.

Introduction

[1] This article is based on practical observations from program implementation, particularly in the Amhara region of Ethiopia and neighbouring areas, and also draws from a literature review of past quantitative and qualitative studies on microfinance and gender. Review of two microfinance model on Ethiopia city.[4] Vara Laxmi is definition in a article way by A Sustainable approach for Women Empowerment through Micro- finance, the micro-credit or microfinance has got much avowed attention among government circles. It is assumed that women's control over income will lead to assumed to lead to wider social and political empowerment. [3] At a macro level, it is because 70 percent of the world's poor are women. Women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services. [7] In this article Micro finance has become a tool for uplifting the economic conditions of asset less poor people through group approach that ensures active participation of the beneficiaries in effective implementation of the programmed. [8] A common understanding of empowerment is necessary, however to allow us to know empowerment when we see it in people with when we are working and for program evaluation. [9] In this article the paper is an attempt to analyze the impact of micro finance on income and employment of rural women in dairy enterprise. [10] This study attempts to explore on the much debated question of the role of microfinance as a financial intermediary for enhancing women empowerment. [11] In this report "Poor rural women and men are empowered to achieve higher incomes and improved food security". [12] In this the findings of the study concluded that high empowerment of beneficiary rural women could take place in personal, educational, economic, social and psychological walk of life through micro financing or

CBIGA. [13] In this article the study was conducted to know the empowerment among rural women through CBIGA [Community Based Income Generating Activity A kind of micro financings] which has been provided by Informal Women Education Centre, Banasthali Vidyapeeth in Tonk district of Rajasthan state in India. 12 rural women from different villages of selected district formed the target group / case for the study.

1. History

Ideas relating to microcredit can be found at various times in modern history. Jonathan Swift inspired the Irish Loan Funds of the 18th and 19th centuries. In the mid-19th century, anarchist Lysander wrote about the benefits of numerous small loans for entrepreneurial activities to the poor as a way to alleviate poverty. At about the same time, but independently to Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany. In the 1950s, AkhtarHameed Khan began distributing group-oriented credit in East Pakistan. Khan used the Comilla Model, in which credit is distributed through community-based initiatives. The project failed due to the over-involvement of the Pakistani government, and the hierarchies created within communities as certain members began to exert more control over loans than others.

2. NEED FOR MICRO-FINANCE

Since the 1950s, various governments in India have experimented with a large number of grant and subsidy based poverty alleviation programmers. Studies show that these mandatory and dedicated subsidized financial programmers, implemented through banking institutions, have not been fully successful in meeting their social and economic objectives:

The common features of these programmed were:

i. Target orientation

ii. Based on grant/subsidy, and

iii. Credit linkage through commercial banks.

These programmed

a. were often not sustainable

b. perpetuated the dependent status of the beneficiaries

c. depended ultimately on government employees for delivery

d. led to misuse of both credit and subsidy and

e. was treated at best as poverty alleviation interventions.

Banks too never really looked on them as a profitable and commercial activity.

According to a 1995 World Bank estimate, in most developing countries the formal financial system reaches only the top 25% of the economically active population - the bottom 75% have no access to financial services apart from moneylenders -

In India to the formal financial institutions have not been able to reach the poor households, and particularly women, in the unorganized sector. Structural rigidities and overheads lead to high cost of making small loans. Organizational philosophy has not been oriented towards recognizing the poor as credit worthy. The problem has been compounded by low level of influence of the poor, either about their credit worthiness or their demand for savings services. Micro-finance programmers have often been implemented by large banks at government behest. Low levels of recovery have been further eroded due to loan waiver programmers leading to institutional disenchantment with lending to small borrowers.

All this gave rise to the concept of micro-credit for the poorest segment along with a new set of credit delivery techniques. With the support of NGOs an informal sector comprising small Self Help Groups (SHGs) started mobilizing savings of their members and lending these resources among the members on a micro scale. The potential of these SHGs to develop as local financial intermediaries to reach the poor has gained recognition due to their community based participatory approach and sustainability - recovery rates have been significantly higher than those achieved by commercial banks inspire of loans going to poor, unorganized individuals without security or collateral.

Success stories in neighboring countries, like Grameen Bank in Bangladesh, Bank Rakiat in Indonesia, Commercial & Industrial Bank in Phillipines, etc., gave further boost to the concept in India in the 1980s.

The Global Summit on Micro Finance held in Washington in Feb '97 set a global target of covering 100 million poor families with credit by 2005 - it was expected that 25-30 million of these could be in India alone.

The poor in India define the micro-finance market. The Planning Commission estimate of 1993-94 says 36% of the population or 320 million people live below the poverty line - there would be 140-150 million women alone living below the poverty line. Assuming that only 30% of the country's poor women are ready to adopt micro-finance as a method of poverty alleviation, it is estimated that 40-45 million poor women would need credit.

As against this, it is estimated that all agencies in India engaged in the provision of micro-finance services, would have together covered barely 1 million poor people by the close of 1998-99.

The most prominent national level micro-finance apex organization providing micro-finance services for women in India is the National Credit Fund for Women or the Rashtriya Mahila Kosh (RMK).

3. CONCEPT

4.1 Group Guarantee Lending Model (GGLM)

[1] Many MFIs around the world, including in Ethiopia, utilize the Group Guarantee Lending Model developed by the Grameen Bank. Under this system, potential clients are required to organize a peer group that will commit to a mutual loan repayment guarantee. Credit is then delivered through small, affinity-based groups (usually five to seven members each) with about 10 to15 groups meeting at one "Centre." Monthly (or more frequent) meetings are held to discuss group dynamics and collect payment and savings. Priority for credit is given to the poorest members, especially to women. In Ethiopia, the possession of one ox is used as an immediate indicator of those living above or below the local "poverty line." Another participatory method of assessing economic status calls for representatives from the "Credit and Saving Committee" within the community to establish further rankings of those who are credit-worthy and eligible to be the first beneficiaries.

4.2 What is Microfinance?

[5] As the name suggests, microfinance is the provision of financial services (loans, savings, insurance) to people on a small scale, such as businesses with low or moderate incomes, but you can read more meticulous definitions here and here. Loans of micro value are one of the better known means of helping small business owners in developing countries move out of poverty. The definition for according to The Asian Development Bank (ADB) is any financial service targeted toward the poor, such as:

1. Deposits
2. Finance schemes or loans up to $3,000
3. Payment services
4. Money transfers
5. Insurance to poor and low-income households and their micro-enterprises.

Microfinance Institutions (MFIs) provide loans and savings services through a variety of lending models, while micro entrepreneurs use these services. The theory is that if the poor have access to these services, their financial lives will be more stable, predictable and secure, allowing them to plan and improve their livelihoods through education, healthcare and empowerment. In other words, microfinance converts poverty into an economic opportunity that evades the idea of exploitation.

4.3 What are the Sources of Microfinance?

Microfinance providers come in various forms which can be broadly grouped as follows:

1. Formal Microfinance Institutions – rural/microfinance/village banks, commercial banks, telecom firms and cooperatives offering loans to lower-income group individuals,
2. Semi-formal Microfinance Institutions – nongovernmental organizations providing Micro-sized loans.
3. Informal Microfinance Sources – money lenders and shopkeepers who often loan money on a daily basis and charge exorbitant interest rates.

4.4 Way of impoverving microfinance scheme

4.4.1 Income, consumption and the creation of businesses

[6] Microcredit has a "positive impact on enterprise and household income and asset accumulation”. However, the positive economic impacts associated with microcredit are not as extensive as once thought. A study by Dean Karlan of Yale University in the Philippines compared two groups in Manila: a treatment group, financed through microcredit, and a control group that did not receive microcredit. The study showed that in this case many microcredits were loaned to people with existing business, and not to those seeking to establish new businesses. The businesses became more profitable and lay off unproductive employees including friends and relatives that they previously had felt obliged to employ.

The first randomized evaluation of the impact of introducing microcredit in a new market has been undertaken in slums in Hyderabad, India, in 2008. Half the slums were randomly selected for opening branches of banks that provided microcredits while the remainder was not. The study showed that fifteen to 18 months after lending began; there was no effect on average monthly expenditure per capita, but expenditure on durable goods increased and the number of new businesses increased by one third.

4.4 Material and methods

[9] The Community Based Tank Management Consultancy Project (CBTMCP), among other activities introduced dairy as Income Generating Activity (IGA) in the selected tank commands of Haveri and Bellary districts. To encourage the rural women, who are poorest among the poor in the tank command area and

interested to take up dairy enterprise as a income generating activity were provided financial support for purchase of dairy animals particularly buffaloes through Tank User Groups in two villages of Haveri and Bellary districts, 10 women beneficiaries of Kenchatanhalli village in Bellary district and in Haveri district,

20 women beneficiaries of Dasharathakoppa village were selected for providing financial support. In all, 30 rural women beneficiaries who have availed financial support from the TUG were purposively selected for present study. The data were collected from the respondents by personal interview method using pre-tested schedule prepared for the purpose during the year 2007-08. The secondary data relating to profile of the rural women beneficiaries prior to providing financial support was obtained from the Income Generating Activity reports maintained in the CBTMCP office, UAS, Dharwad. The tabular analysis and percentages were used to analyse the data.

4.5 Microfinance and SHGs:

[7] Micro finance has become a tool for uplifting the economic conditions of asset less poor people through group approach that ensures active participation of the beneficiaries in effective implementation of the programmer. Micro financing is to focus on economically active poor sectors so that there is no downward migration for them. In the recent past Micro finance is growing very rapidly and getting its due attention from banks, Non-Government organizations and the Government. Its concept is based on the empowerment of the best known programmers among the administrators, NGOs and bankers. Microfinance has found the SHG profitable, viable

and as successful tool of social empowerment and no bank has reported any NPA under the SHG bank linkage.

4.6 Microfinance empowers women

[13] The question of whether microfinance empowers women has attracted attention in both academic and policy circles. The answers range from microfinance having the potential to empower women fully … to microfinance alone cannot empower women to how the programmes can actually disempowering women. The logic of micro-finance's potential for empowerment is similar to the economic model of empowerment: microfinance makes women economically independent by putting capital and financial resources in their hands. Economic independence results in higher bargaining power for women in their households and communities, and subsequently results in higher prestige and self-esteem. Here the functions of microfinance are synchronous with its potential to empower.

4.7 Poverty

[6] Milford Bateman, the author of *Why Doesn't Microfinance Work?* Argues that microcredit offers only an "illusion of poverty reduction". "As in any lottery or game of chance, a few in poverty do manage to establish microenterprises that produce a decent living," he argues, but "these isolated and often temporary positives are swamped by the largely overlooked negatives." Bateman concludes that "The international development community is now faced with the reality that, overall, microfinance has been a development policy blunder of quite historic proportions."One of these studies found that microfinance reduced poverty. Two others were unable to conclude that microfinance reduced poverty, although they attributed some positive effects to the program. Other studies concluded similarly, with surveys finding that a majority of participants feel better about finances with some feeling worse.

According to the Grameen Bank does not reach the poorest, since the clients of the bank tend to be clustered around the poverty line of predominantly moderately poor or vulnerable non-poor. Of the poor who join Grameen bank's microcredit program, a high percentage often drop out after only a few loan cycles, while many others eventually drop out in later loan cycles as loan amounts begin to exceed their repayment capacity.

Risks like sickness and natural disasters are a critical dimension of poverty and poor people rely heavily on informal savings to manage these risks. Microfinance institutions could provide savings services to this population to reduce these risks, but not all of them have been successful at doing so. For example, a study of microcredit institutions in Bolivia in 2003, for example, found that they were very slow to deliver quality micro savings services because of easy access to cheaper forms of external capital.

Microcredit has been blamed for many suicides in India: aggressive lending by microcredit companies in Andhra Pradesh is said to have resulted in over 80 deaths in 2010.

4.8 Interest rates, stock offerings and repayment rates

[6] There has been much criticism of the high interest rates charged to borrowers. For example, Bangladesh's former Finance and Planning Minister M. Saifur Rahman charged in 2005 that some microfinance institutions use excessive interest rates. Sharma has criticized microfinance institutions for creating small-debt traps for the poor in Andhra Pradesh in India with high interest rates and coercive methods of recovery. A 2008 study in Bangladesh showed that some loan recipients sink into a cycle of debt, using a microcredit loan from one organization to meet interest obligations from another. Field officers who are in a position of power locally and are remunerated based on repayment rates sometimes use coercive and even violent tactics to collect installments on the microcredit loans. The real average portfolio yield cited by the sample of 704 microfinance institutions that voluntarily submitted reports to the Micro Banking Bulletin in 2006 was 22.3% annually. However, annual rates charged to clients are higher, as they also include local inflation and the bad debt expenses of the microfinance institution. Muhammad Yunus has recently made much of this point, and in his latest book argues that microfinance institutions that charge more than 15% above their long-term operating costs should face penalties. A related issue is interest rate disclosure: Many suppliers of microcredit quote their rates to clients using the flat calculation method, which significantly understates the true Annual Percentage Rate In Andhra Pradesh, the villagers who take out the loan often did not know the interest that they were being charged and were not aware of the consequences of taking multiple loans as they take the second loan to clear the first loan.

The issuing of stocks through IPOs (Initial Public Offerings) by microfinance institutions has also been criticized. In July 2010 India's biggest MFI, SKS Microfinance also went public. In both instances Muhammad Yunus publicly stated his disagreement, saying that the poor should be the only beneficiaries of microfinance.

4.9 Gender

[11]A 1996 study in Bangladesh acknowledges the "success" of reaching women with microcredit as "highly impressive", but also notes that loans are often given over to male relatives or husbands. In a minority of cases there was even an increase in domestic violence for women who did not get the loan or had to wait a long time to get the loan. The study also showed that women are more likely to retain control over their loans in traditional women's work like livestock rearing that are considered "women's work".

A 2008 study of microcredit programs in Bangladesh found that women often act merely as collection agents for their husbands and sons, such that the men spend the money themselves while women are saddled with the credit risk.

Meeting of clients of the Indian micro-Lender ESAF in the state of Kerala.

The bigger the size of the loan, women lose their control more. For example, a study in Bangladesh showed that women have 100% control over loans that are smaller than 1000 Taka but only 46% of control if the loan is bigger than 4,000 Taka. A study in India showed that women may be put under pressure by their male relatives to join a credit group and indebt themselves. A study in Bangladesh showed that microcredit increases dowries, with women forced at times to take microcredit loans as the only means to pay these increased dowries for their daughters. The first randomized evaluation of the introduction of microcredit, carried out in Hyderabad in India, found no impact on women's decision-making.

A large majority of microloans is awarded to women, often under the pretense of ensuring their empowerment. Parmar takes issue with the idea that empowerment can be given to women by (mostly male) development practitioners in the form of loans, arguing that empowerment is a self-directed process. Johnson argues for the inclusion of more female employees in microcredit institutions, and gender awareness training for existing staff. Additionally, Leach claims that men must be included in the process of lending to women in order to diminish gender antagonism, as men often feel excluded from microcredit services.

4.10 Improvement

Many scholars and practitioners suggest an integrated package of services ('a credit-plus' approach) rather than just providing credits. When access to credit is combined with savings facilities, non-productive loan facilities, insurance, enterprise development (production-oriented and management training, marketing support) and welfare-related services (literacy and health services, gender and social awareness training), the adverse effects discussed above can be diminished. Some argue that more experienced entrepreneurs who are getting loans should be qualified for bigger loans to ensure the success of the program.

One of the principal challenges of microcredit is providing small loans at an affordable cost. The global average interest and fee rate is estimated at 37%, with rates reaching as high as 70% in some markets. The reason for the high interest rates is not primarily cost of capital. Indeed, the local microfinance organizations that receive zero-interest loan capital from the online micro lending platform Kiva charge average interest and fee rates of 35.21%. Rather, the principal reason for the high cost of microcredit loans is the high transaction cost of traditional microfinance operations relative to loan size. Microcredit practitioners have long argued that such high interest rates are simply unavoidable. The result is that the traditional approach to microcredit has made only limited progress in resolving the problem it purports to address: that the world's poorest people pay the world's highest cost for small business growth capital. The high costs of traditional microcredit loans limit their effectiveness as a poverty-fighting tool. Borrowers who do not manage to earn a rate of return at least equal to the interest rate may actually end up poorer as a result of accepting the loans. According to a recent survey of microfinance borrowers in Ghana published by the Center for Financial Inclusion, more than one-third of borrowers surveyed reported struggling to repay their loans. In recent years, microcredit providers have shifted their focus from the objective of increasing the volume of lending capital available, to address the challenge of providing microfinance loans more affordably. Analyst David Roodman contends that in mature markets, the average interest and fee rates charged by microfinance institutions tend to fall over time.

4. Problems Faced by Microfinance units

In starting of any program began many problem create. [5] Despite good intentions, microfinance still has several hurdles to face:

1. Perceived high risk of lending to the poor (the loan may be misused easily)
2. Technology-related hurdles, such as the high costs involved in small loan transactions for microfinance providers.
3. Lack of awareness about sources of funds for microfinance providers to pass on to the poor.
4. The poor's inability to offer marketable collateral for loans to MFIs
5. Difficulty in measuring the social performance of MFIs.
6. Mixing of charity with business by microfinance providers
7. High interest rates of loans made to the poor (to cover various costs and risks)
8. Lack of customized solutions/ microfinance models for the poor
9. Inappropriate targeting of poor households by microfinance programs
10. lack of microfinance training for MFIs
11. Poor distribution system of MFIs, i.e. a need to spread out loan facilities into rural areas
12. Lack of information about microfinance investment opportunities (Possible solution through AppLab)
13. Poor institutional viability of microfinance ventures
14. Dual mission of MFIs to be financially sustainable as well as development oriented

These problems can be grouped according to whether they're caused by MFIs or caused by micro entrepreneurs. You can read about them in greater detail at these links.

Just like any other new venture, microfinance too faces obstacles that will eventually be ironed out as governments alter their priorities, and as the commercial sector understands the economic viability of the development sector, considering the relative immunity of the microfinance sector to the global financial meltdown. Already, a few encouraging trends have emerged in the microfinance sector.

As Kofi Annan once put it, microfinance not only recognizes the needs of the poor, it also empowers them and taps into their remarkable reservoir of energy and knowledge. In short, microfinance has tremendous potential; its time is now and is here to stay.

5. CONCULSION

Microcredit plays an important role in fighting the multi-dimensional aspects of poverty. Microfinance increases household income, which leads to attendant benefits such as increased food security, the building of assets, and an increased likelihood of educating one's children. Microfinance is also a means for self-empowerment. This reality might result from factors such as leaving the paid workforce to care for children and elderly relatives. As of 2009 an estimated 74 million men and women held microloans that totaled US$38 billion. Grameen Bank reports that repayment success rates are between 95 and 98 per cent. The concept of microfinance seems to have been earned an almost mythical reputation as the panacea of problems of under development.

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