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Micro Finance, Self Help Groups, Poverty and Women Empowerment in India: An overview

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Abstract: **In India about 70% of the total population lives in villages and 60% of these population depends on agriculture which causes less employment and more poverty. The income difference between the rich and the poor is rising day by day. India rank second according to population in the world, comprises with 51.5% men and 48.5% women. Presently, our country is facing a severe problem with less employment and more poverty. In July 2018, World Poverty Clock, a Vienna-based think tank, reported that a minimal 5.3% or 70.6 million Indians lived in extreme poverty compared to 44% or 87 million Nigerians. Till 2019, Nigeria and Congo surpassed India in terms of total population earning below $1.9 a day. World Data Lab anticipates the effects of these methodological adjustments will result in a level of extreme poverty in India today of 50 million people, which will come down to 40 million (a poverty rate of below 3 percent) by end 2019. Chhattisgarh, Manipur, Odisha, Madhya Pradesh, Jharkhand, Bihar and Assam figure among the poorest states where over 40 per cent of people are below poverty line, Chhattisgarh is the poorest and Goa is the richest state in India according to the C Rangarajan panel. Women in India usually restrict themselves to homemaking. Women participation in workforce down to 28% in 2016 with respect to 37% in 2004-05, out of which 26.7% are working in rural areas. Rural women have potential and capacity to earn, but they rarely contribute to family income because they lack opportunity, hence the development of rural women is need of the hour for their economic independence. Under the circumstances, it has become indispensable to provide some definite solutions for employment generation and reduction of poverty. Microfinancing through self help groups in India has been viewed as a development tool which would alleviate poverty, generate employment, remove income inequality and enhance growth of the country through financial services to the needy poor. Loans to poor people by banks have many limitations including lack of security and high operating costs. As a result, microfinance institutions were developed as an alternative to provide loans through SHGs to the needy and vulnerable section of the society. It also provides training with strong discipline, which enables borrowers to increase their productivity, to increase their income and consumptions, which contribute to lowering vulnerability and poverty. This paper examines the role of micro finance and self help groups in reduction of poverty through entrepreneurship development and empowerment of women.**

Introduction

In our country income difference between the rich and the poor has no comparison. Less employment and more poverty lead to crime and political instability and hampers the process of economic development. Moreover, India is depending on agriculture, owing to which poor people face higher external risk. Accordingly, credit rationing takes place since the market excludes the poor without collateral which can ensure these high risks. This is one of the reasons for less employment and more poverty in India. Micro finance concept is developed as a powerful tool to generate employment. It provides financial services at low interest with its unique technique known as group lending. Group lending is a financial service that offers loans to the groups of borrowers who are jointly liable for the loans. Micro finance institutions transfer the opportunity cost to borrowers by allowing them to carry out screening and monitoring. Group members screen each other's repayment ability, which restrict adverse selection. Accordingly, lenders do not need to cover the high opportunity cost, which is normally required for providing loans, and they can also achieve a low default rate. Government, Non-Government Organizations (NGOs) and other institutions have introduced various welfare schemes to reduce unemployment. Implementation of these schemes through micro financing may increase employment, reduce poverty and enhance empowerment. As a result, there is an increase in income and savings of the rural people. Credit and insurance facility enable the poor to smoothen their consumption, manage their risk better, built their assets gradually which helps in increasing their living standard.

Research Methodology

The Data collected for the study depends only on secondary data. The various sources used to collect secondary data include research papers, journals, articles, annual report of company, and data from various other websites and social media. The secondary data collected is further analyzed to draw conclusion.

Literature Review

Ahlin and jiang (2008) described that micro finance decreases inequality by increasing income of the rural poor. According to the study conducted by **Vachya Lavoori and Rajendra N (2014)** Microfinance Institutions and Self-Help Groups emerged as sub sector of financial system to provide services to needy women. **Khandker (2005)** offer support for the positive contribution microfinance can make to reducing income inequality**. Aruna and Jyotirmayi (2011)** explored a study to measure the role played by micro finance to improve economic condition of women**. Bansal (2010**) studied that micro finance programme has increased the individual and household income of the participants along with reduction in income inequality**. Barbora and Mahanta (2001)**

examined the role of microcredit in the generation of income for the poor and assessed the role of MFIs in promoting savings among them. **Sudha Rani (2002)** found that participation of women in the SHGs led to their empowerment in house management, leadership, economic status, health and sanitation **Christabel and Raj (2012))** in their study examined that The Women's Self Help Group movement is bringing about a profound transformation in rural areas of India. **Rajarshi Ghosh (2005)** in his research paper Micro **Finance in India: A Critic**, the evolution of micro finance in empowerment of women and poverty alleviation is studied the various delivery models of micro finance institutions which contribute to reduce poverty and increase standard of living. **Jayasheela, Dinesha P.T. and V.Basil Hans (2008)** studied the role of micro finance in making availability of credit to low income population for increasing their purchasing power. **Pankaj K Agarwal and S.K. Sinha (2010)** found in their study that the sustainability of micro finance is important in order to pursue their objectives through good financial performance. **Sonia Chawla Vol. 3 (Jan, 2013)** in her research paper Microfinance**: A Tool for Poverty Alleviation**, found that microfinance has been used as an effective tool in bringing about financial inclusion and as a measure to alleviate poverty.

Objectives of the study:

- To understand present status of rural and urban poverty in India.
- To trace out the needs of micro finance for poverty alleviation.
- To understand the advantages of financing through SHGs.
- To study the role of self help groups in women entrepreneurship development and empowerment.
- To understand the concept of NABARD SHG Bank linkage Program.

Women and Poverty in India

In India both rural and urban poverty is a big challenge for the government and non-government organization. Urban poverty in India is over 25 percent; some 81 million people live in urban areas below the poverty line. At the national level, rural poverty remains higher than urban poverty, but the gap is closing. Rural poverty refers to poverty in rural areas. Factors responsible for this includes rural society, rural economy, and the political systems. Rural women are particularly disadvantaged, both as poor and as women. Women in both rural and urban areas face a higher risk of poverty and more limited economic opportunities than their male counterparts. The number of rural women living in extreme poverty rose by about 50 percent over the past twenty years. Women in rural poverty live under the same harsh conditions as their male counterparts, but experience additional cultural and policy biases which undervalue their work in both informal, and formal labor markets. The 2009 World Survey states that "women play an active role in agriculture and rural livelihoods as unpaid family labour, independent farmers and wage labour, often without access to land, credit and other productive assets." Women's contribution to the rural economy is generally underestimated, as women perform a disproportionate amount of care work, that often goes unrecognized because it is not seen as economically productive. Though in some areas of our country, cultural and societal norms prevent women from working outside the home, in other countries, especially in rural communities in Africa, women work as major food producers, improving household food and income security. The word poverty is a concept that is applicable in both urban and rural India.

Women and Empowerment

The term empowerment refers to measures designed to increase the degree of autonomy and self-determination in people and in communities in order to enable them to represent their interests in a responsible and self-determined way, acting on their own authority. It is the process of becoming stronger and more confident, especially in controlling one's life and claiming one's rights. Empowerment refers both to the process of self-empowerment and to professional support of people, which enables them to overcome their sense of powerlessness and lack of influence, and to recognize and use their resources. To do work with power. Empowerment is the process of obtaining basic opportunities for marginalized people, either directly or through the help of non-marginalized others who share their own access to these opportunities. It also includes actively thwarting attempts to deny those opportunities. Empowerment also includes encouraging, and developing the skills for, self-sufficiency, with a focus on eliminating the future need for charity or welfare in the individuals of the group. This process can be difficult to start and to implement effectively.

Importance of microfinance

Microfinance is a way in which loans, credit, insurance, access to savings accounts, and money transfers are provided to poor and vulnerable people and small business owner in India. The beneficiaries of microfinance are those who do not have access to banks and capital market. The borrowers are generally from low income groups. loans availed under microfinance are usually of small amount, i.e., micro loans, the loan tenure is short, microfinance loans do not require any collateral security, these loans are usually repaid at higher frequencies and the purpose of most microfinance loans is income generation. Microfinance products includes:

- **Microloans** - Microfinance loans are significant as these are provided to borrowers without collateral. The end result of microloans should be to have its recipients outgrow smaller loans and be ready for traditional bank loans.
- **Microsavings** – Microsavings accounts allow entrepreneurs to open savings accounts without minimum balance. These accounts help users inculcate financial discipline and develop an interest to increase saving for the future.
- **Microinsurance** - Microinsurance is a type of coverage provided to borrowers of microloans. These insurance plans have lower premiums than traditional insurance policies.

Almost half of the population of our country does not have a basic savings account. However, this segment requires financial services so that their aspirations such as education and marriage of children, building of assets and protection against risk can be fulfilled. Microfinance provides access to capital for individuals who are financially underserved. If microfinance institutions were not offering loans to this segment of the society, these groups would have resorted to borrowing money from friends or family members. The probability of them opting for fast cash loans or payday advances that bear huge interest rates are also high. Microfinance helps these groups invest wisely in their businesses, and hence, is in alignment with the government's vision of financial inclusion in the country.

NABARD's 'SHG Bank Linkage' program

SHGs are groups of 10-20 people in a locality formed for any social or economic purpose. Self-help groups are started by governmental organizations (GO) that generally have broad anti-poverty agendas. Self-help groups are seen as instruments for goals including empowering women, developing leadership abilities among poor and the needy people, increasing school enrolments and improving nutrition and the use of birth control. In countries like India, SHGs bridge the gap between high-caste & low-caste people. Most of the SHGs are formed for the purpose of better financial security among its members. SHGs can exist with or without registration. It comprises a group of micro entrepreneurs having homogeneous social and economic backgrounds, all voluntarily coming together to save regular small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. They pool their resources to become financially stable, taking loans from the money collected by that group and by making everybody in that group self-employed. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment. This system eliminates the need for collateral. NABARD estimates that there are 2.2 million SHGs in **India**, representing 33 million members, that have taken loans from banks under its linkage program to date. Many self-help groups, especially in India, under NABARD's 'SHG Bank Linkage' program, borrow from banks once they have accumulated a base of their own capital. This model has attracted attention as a possible way of delivering micro finance services to poor populations that have been neglected by banks or other institutions. By aggregating their individual savings into a single deposit, self-help groups minimize the bank's transaction costs and generate an attractive volume of deposits. Through self-help groups, the bank can serve small rural depositors while paying them a market rate of interest.

Conclusion

The Indian economy at present is facing great challenges of unemployment, poverty and inequality. The rich are becoming richer and the poor are becoming poorer. The financially excluded sections largely comprise marginalized farmers, landless laborer, unorganized sector, urban slum dwellers, migrants, ethnic minorities and the poor women needs a range of financial services that are convenient, flexible, and affordable. Such a system allows poor households to start their own business, to save and manage their money securely, decreases their vulnerability and allows them to contribute more actively to their economic development. Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. It has a significant role in bridging the gap between the formal financial institutions and the rural poor. At the All India Level less than 5 per cent of poor rural households have access to micro finance. Microfinance institutions can work as a powerful tool to generate employment and reduce poverty. With the new policies pertaining to micro credit, micro finance institutions such as Self-Help Groups (SHGs) have emerged and they now have a strong footing in India. Indian optimists are talking of India being among the top 5 economies of the world by 2050. It might be possible if poverty alleviation has to be the top most priority of the government and NGOs.

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