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## **Role of micro finance through SHGs on the economic condition of deprived women in rural India**

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### **Abstract**

Women in both rural and urban areas face a higher risk of poverty and more limited economic opportunities. The number of rural women living in extreme poverty rose by about 50 percent over the past twenty years. World Data Lab anticipates the effects of these methodological adjustment will result in a level of extreme poverty in India today of 50 million people, which is expected to come down to 40 million (a poverty rate of below 3 percent) by end 2019. As per the latest Indian Human Development Survey released on May 11, 2019, the Indian households that have more than five children are severely deprived of shelter, water, sanitation, health and education as compare to 7.8 per cent of poor families without children. Under these circumstances, it has become essential to take some definite measures for new employment opportunities and to reduce poverty among rural women. Microfinancing through self help groups in India has been viewed as a development tool which would generate employment, remove inequality and enhance the growth of the country through financial services to the needy poor. Self help Groups provides training to the borrowers to increase their productivity, to increase their income and consumptions, which contribute to lowering vulnerability. This paper examines the role of micro finance through self help groups for the upliftment of social and economic condition of poor women in rural India.

**Keywords:** Poverty, Self Help Groups, Microfinance, women empowerment

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### **Introduction**

India is the fifth largest country by Gross Domestic Product where up to 24 percent of the world's poor lives, according to World Bank report. India is expected to add nearly 273 million people by 2050 and will surpass China as the world's most populous country by 2027, as per the recent UN World Population Prospects 2019 report. Given the findings of IHDS survey, this could have serious implications for the lives of poor in India. The status of deprivation in India is linked with caste and religion. Among Muslim households with children, the chances of deprivation were found to be twice higher than among other communities, in SC and ST households with children are 1.5 times higher than those for Other Backward Class (OBC) and general caste households. Most of them do not have any land holdings, among households with children 49.3 per cent are water-deprived compared to 36.4 per cent of those without children. The United Nations expects the global economy to grow 3 per cent in the year 2019 and 2020, which required urgent and concrete policy action to put the world on track to meet the UN's goals for eradication of poverty by 2030. Micro finance through SHGs may prove as a powerful tool to generate employment, reduce vulnerability and improve the economic condition of rural women. It provides financial assistance 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 and also, cut the high opportunity cost of selection. Government, NGOs and other financial institutions have introduced various welfare

schemes for reduction of poverty in rural areas. Implementation of these schemes through SHGs may increase employment opportunity, enhance entrepreneurship as well as empowerment which will result in rising income and savings of the rural poor. Credit and insurance facility will enable them to smoothen their consumption, manage their risk better and built their assets gradually and consequently improving the living standard of weaker section of the society.

### **Literature Review**

Maruthi Ram Prasad, Sunitha and LaxmiSunitha (2011) conducted a study on Emergency and Impact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc. the microfinance scene in India has reached in take off stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation. Sa-Dhan (2012) published a report titled 'Financial Inclusion – A study of the efficacy of banking correspondent model' with an objective to study different models of BCs, identify its challenges and evaluate different products and services offered by BCs. 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. Zuzana Harmincova and Karel Janda (2014) in their paper titled 'Microfinance around the world – regional SWOT Analysis' compared the functioning of microfinance in various developing regions of the world and analyzed the overall functioning, effectiveness, strengths and

weaknesses, potential threats and opportunities in the microfinance markets. Abendroth, Melzer, Kalev and Tomaskovic-Devey (2016) explore whether and how women's access to higher-level positions, firms' human resources practices, and workers' qualification levels are associated with gender differences in earnings and found that integrating women into managerial and supervisory roles does not automatically reduce gender inequalities and its impacts are contingent on organizational context. Srivastava and Cheema (2019) in their paper discuss how gender integration can reduce income-inequality gap. The study analyzes the impact of the developmental policies of government in creating the path for reducing inequality of women in India. Kapoor (2019) analyses how self-help groups (SHGs), as a part of social innovation, can be used for empowering women/girls through entrepreneurship alleviation. It also reveals its social and economic implications by women involvement in productive and financial contribution in the family.

### Objectives of the study

- To understand the status of rural poverty in India.
- To trace out the needs of micro finance for poverty alleviation.
- To examine the role of SHGs in micro financing in rural areas.
- To understand the impact of SHG Bank linkage Program.
- To study the problems faced by women entrepreneur.

### 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.

### Women 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.

### Impact of SHG-Bank Linkage Programme on Social and Economic condition of women.

Since early seventies of the twentieth century a multi model approach has been adopted for empowering people to access

social and economic justice. Among the various models, the SHG - Bank Linkage Programme (BLP) helped extensively to empower the poor, especially rural women, through providing savings and credit windows from banks. The learnings from the savings and credit encouraged setting up of small and micro enterprises and consequently generated employment. NABARD's Livelihood and Enterprise Development Programme (LEDP) has been implemented since 2015 with 532 programmes wherein 61,033 SHG members have been trained. The active collaboration of NGOs, Banks, the Governments and the NRLM, the SHG BLP has now crossed the milestone of 1 crore SHGs covering more than 12 crore families with savings deposits of R23,324 crore and more than 50 lakh groups with loan outstanding of over R87,098 crore, of which, 88% was disbursed to rural women groups (up to 31 March 2019). The growth during 2018-19 remained steady and promising. Despite the phenomenal growth, the SHG-BLP movement is faced with several issues like uncertainty in bank loans, smart book keeping, limited adoption of technology and declining advantage of aggregation at SHG level etc. To address some of these issues and to keep pace with the growing digital ecosystem in the country, NABARD visualized digitization of SHGs and their operations by launching EShakti project as a pilot in 2015. The project is now under implementation in 100 districts and has great potential to deliver various banking services at the doorsteps of poor women. As on 31 March 2019, more than 4.34 lakh SHGs have been on-boarded in the EShakti portal. This EShakti database is leveraged to bring SHG members under the social security and financial inclusion schemes of Government of India.

### Problems faced by women Entrepreneur

**Problem of Finance:** Finance is regarded as "life-blood" for any enterprise, be it big or small. However, women entrepreneurs suffer from shortage. of finance.

**Scarcity of Raw Material:** Most of the women enterprises are plagued by the scarcity of raw material and necessary inputs. Added to this are the high prices of raw material, on the one hand, and getting raw material at the minimum of discount, on the other.

**Stiff Competition:** Women entrepreneurs do not have organizational set-up to pump in a lot of money for canvassing and advertisement. Thus, they have to face a stiff competition for marketing their products with both organized sector and their male counterparts. Such a competition ultimately results in the liquidation of women enterprises.

**Limited Mobility:** Unlike men, women mobility in India is highly limited due to various reasons. A single woman asking for room is still looked upon suspicion. Cumbersome exercise involved in starting an enterprise coupled with the officials humiliating attitude towards women compels them to give up idea of starting an enterprise.

**Family Ties:** In India, it is mainly a women's duty to look after the children and other members of the family. Man plays a secondary role only. In case of married women, she has to strike a fine balance between her business and family. Her total involvement in family leaves little or no energy and time to devote for business.

**Lack of Education:** In India, on an average 60% of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to the lack of education and that too qualitative

education, women are not aware of business, technology and market knowledge. Also, lack of education causes low achievement motivation among women.

**Male-Dominated Society:** The Constitution of India speaks of equality between sexes. But, in practice, women are not treated as equal to men, women are looked upon as weak in all respects. Women suffer from male reservations about a women's role, ability and capacity and are treated accordingly.

**Low Risk-Bearing Ability:** Women in India lead a protected life. They are less educated and economically not self-dependent. All these reduce their ability to bear risk involved in running an enterprise. Risk-bearing is an essential requisite of a successful entrepreneur.

### **Challenges faced by Microfinance Institutions in India**

Micro finance institutions serving retail customers have to face quite a specific set of challenges, which includes:

#### **Cost of outreach**

Reaching the unbanked populations of India means servicing small loan amounts and servicing remote populated areas of the country, which can be dangerously unprofitable without high rates of process automation and mobile delivery.

#### **Quality of Self Help Groups**

Due to the fast growth of the SHG-Bank Linkage Programme, the quality of MFIs has come under stress. This is due to various reasons such as, the intrusive involvement of government departments in promoting groups, diminishing skill sets on part of the MFIs members in managing their groups, changing group dynamics.

#### **Geographical Factors**

Around 60% of MFIs agree that the Geographic factors make it difficult to communicate with clients of far-flung areas which create a problem in growth and expansion of the organization.

#### **High Transaction Cost**

High transaction cost is a big challenge for microfinance institution. The volume of transactions is very small, whereas the fixed cost of those transactions is very high.

#### **KYC and security challenges**

The customers serviced by Microfinance institutions are usually the ones having none or very limited official identification or able to provide tangible security, this makes it extremely difficult for institutions to offer any banking services.

#### **Inadequate Infrastructure**

Lack of sufficient infrastructure and consequently the inability of most RRBs to retain qualified managers affect the growth and the discharge of their operations. Inadequate infrastructure support also translates into high project preparation costs, and risk aversion amongst sponsor entities.

#### **Credit understanding**

Credit understanding of rural people is not so good. So, it lacks a roadmap as to who should be eligible for credit.

### **Concern for profit**

Concern of profit in microfinance will lead MFIs away from poor clients to serve better-off clients. Conflict exists between profit and serving the very poor.

### **High rates of interest as compared to mainstream banks**

MFIs' when compared to commercial banks do not enjoy the same rate of financial success. One of the reasons is MFIs' charge a very high rate of interest (12-30%) as compared to commercial banks (8-12%). This left the customers in a worse situation due to the over-indebtedness caused by the charging of high interest rate.

### **Conclusion**

The Indian economy at present is facing great challenges of unemployment and rising poverty. The financially excluded sections largely comprise marginal farmers, landless labourers, self-employed and unorganized sector. Here the Slum dwellers, migrants, ethnic minorities, socially excluded groups, senior citizens and the poor women needs a range of financial assistance that are convenient, flexible, and affordable. Such a system allows poor households to start their own business through entrepreneurship development which consequently decreases their vulnerability. Microfinance is considered as one of the most effective tools of providing employment and poverty reduction. It has a significant role in bridging the gap between the formal financial institutions and the rural poor. With the new policies pertaining to micro credit, micro finance institutions (MFIs) and Self-Help Groups (SHGs) have emerged and they now have a strong presence in rural areas. The SHG - Bank Linkage Programme (BLP) helped extensively to empower the poor, especially rural women, through providing savings and credit windows from banks. The learnings from the savings and credit encouraged setting up of small and micro enterprises and consequently generated employment. NABARD's Livelihood and Enterprise Development Programme (LEDP) has been implemented since 2015 with 532 programmes wherein 61,033 SHG members have been trained. The active collaboration of NGOs, Banks, the Governments and the NRLM, the SHG BLP has now crossed the milestone of 1 crore SHGs covering more than 12 crore families with savings deposits of R23,324 crore and more than 50 lakh groups with loan outstanding of over R87,098 crore, of which, 88% was disbursed to rural women groups (up to 31 March 2019). So, we must be optimistic of India being among the top 5 economies of the world by 2050.

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