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## Research Article

# SIGNIFICANCE OF MICROCREDIT IN EMPOWERMENT OF WOMEN: A CRITICAL ANALYSIS

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### ABSTRACT

Historically, women are considered the weaker sex, as a result, for the past centuries, women are deprived of most of the rights which their male counterparts could enjoy. Women's empowerment is crucial for achieving a just, equitable, and sustainable world. Financial/credit facilities are deemed one of the key components of empowering the rural poor, especially women, to realize the objective of inclusive growth. The objective of inclusive growth stresses financial inclusion which necessitates the extension of financial services to women. In view of the credit need and creditworthiness of the poor and women, the concept of microcredit/ micro financial services emerged for the financial inclusion of the poor and women. SHGs also entered into the area of economic upliftment of the poor and women and became instrumental in spreading micro-financial services among the poor through linkage with banks and other formal financial institutions. This study intended to analyze the functioning of microfinance institutes and SHGs in spreading microcredit among women. It is found that some private microfinance institutes which entered with profit motive than social desirability resorted to malpractices. Multiple lending/borrowing led to debt traps and abetted suicides. SHGs are successful only in the recovery of loans but not in creating proper awareness among the poor about Micro Financial Services. It is concluded that despite some 'lapses' access to Micro financial services and the role of SHGs in spreading Micro credit among poor women is significant. It is suggested that proper monitoring and regulation of MFIs and the role of SHGs is desirable for effective results.

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### INTRODUCTION

Historically, women are considered the weaker sex, as a result, for the past centuries, women are deprived of most of the rights which their male counterparts could enjoy. The Government of India has adopted the National Policy for the Empowerment of Women on 20th March 2001. The main objective of this policy is to bring about the advancement, development, and empowerment of women, to eliminate all forms of discrimination against women, and to ensure their active participation in all spheres of life and activities. Similarly, the 11<sup>th</sup> five-year plan introduced the concept of inclusive growth and declared it as one of the main objectives and aimed to involve women in the development process on par with men and thereby empower them. Women empowerment refers to enabling women to have control over their lives, make choices and decisions, and have equal access to resources and opportunities. Financial/credit facilities are deemed one of the key components of empowering rural poor, especially women, to realize the objective of inclusive growth. The objective of inclusive growth stresses on financial inclusion which

necessitates the extension of financial services to poor women in general and in rural areas. The vision of inclusive growth lies in empowering the women who are hitherto kept away from the fruits of economic growth and development. As women form half of the total population and are kept out of the ambit of development process, the high ambition of achieving inclusive growth cannot be accomplished without the inclusion of the women, the half of the society, in the development process. Thus the concept of inclusive growth emphasized on the extension of credit / financial facilities to poor people in general and women in particular.

In view of the empowerment of women and the importance of financial services, particularly Micro financial services and the role played by Self Help Groups –SHGs in extending Micro Credit facilities, it is intended to analyze the accessibility of women to financial services and the role of SHGs in the expansion of Financial Services among poor women in rural areas and the problems that they encounter about financial services.

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## Objectives

- The main objectives of the study are
- To focus on the concept of women's empowerment.
- To study the credit needs of the poor people.
- To focus on the access to credit facilities by the poor.
- To assess the role of SHGs in the extension of Micro Finance services.
- To examine the problems involved in the extension of Micro Finance services.

**Sources of data:** This study is based on the secondary data collected from standard textbooks, journals, official websites, newspapers etc.

## METHODOLOGY

### Women Empowerment

Women empowerment refers to the power of decision-making. The dictionary meaning of the term 'empower' is to invest legally or formally with power, to make powerful. It involves creating an environment where women can participate in society and the economy on an equal footing with men. Women's empowerment can take many forms, including education, economic, political, and social. It includes access to education, training, employment, and entrepreneurship opportunities, as well as fair wages, equal pay, and access to credit and financial services. It is a holistic concept, multidimensional in approach, and involves a basic realization and awareness of one's own powers and potentials, capabilities and competencies, and of one's rights and opportunities for development in all spheres of life- social, political, economic and cultural to lead a reasonable and rational life with dignity. Among all the facets of empowerment, economic empowerment occupies utmost significance, and employment opportunity is considered to contribute to economic empowerment, it also refers to women's ability to participate in economic activities on an equal basis with men. Role and involvement in decision-making in family affairs, freedom in spending, help received in discharging responsibilities in the household, and deviation from traditional customs etc are some indicators of women's empowerment.

Women's empowerment is important for economic growth and development. Women's empowerment is critical for achieving sustainable development. When women are empowered, they are better able to contribute to efforts to address environmental challenges, reduce poverty, and promote social justice. In short, women's empowerment is crucial for achieving a just, equitable, and sustainable world.

### Importance of Credit/Finance Facilities

Just as it is impossible for the human body to function without blood circulation, similarly it is impossible for an economy to function without circulation of financial resources among various units of the economy. The circulation of financial resources in the economy is essential to keep economic agents to carry out their activities. The level of activities in the economy in all stages from production to consumption is very much influenced by the flow of financial services. Adequacy of financial services at affordable prices is key to both the supply side and demand side of the economy. On the supply side, the mobilization of resources and thereby scale of production is determined by the availability of financial resources. On the demand side, consumers cannot be expected to reach the

supplies without access to financial resources at affordable prices. The fact is that a well-developed, efficient financial system is an essential prerequisite for economic development. It is the financial system that enables an economy to function and develop at a desirable level by adequately providing necessary financial services at competitive prices. Access to financial services is considered to be most significant in case of poor, marginal, and excluded people for exploring their potential and thereby empowering themselves economically, politically, socially, and culturally.

### Poor women and Credit needs

For economic development of the poor, the programs of income and employment generation have to be directly aimed at individuals and groups of poor people. Economic development of the poor, particularly of women is most difficult task for they have certain unique deficiencies, lack of access to credit and modern inputs. For the economic development of the poor, the most crucial input is credit. Many studies have pointed out that for all kinds of income-generating activities based on land, water, skill, industry, trade services, etc. credit is one of the basic inputs. The credit needs of the poor are distinct from that of other people.

Access to credit by poor women is very less and difficult because of the special socioeconomic conditions of poor with regard to credit facilities. Due to low creditworthiness, institutional credit is denied to them. Poor need credit for various other purposes than productive activities such as consumption, social, customary ceremonies etc. Because of these, the credit obtained for productive purposes is diverted resulting into an inability to pay back the debt. The size of the credit is also too small that it is difficult to be obtained from the banking system. High frequency and short term credit needs also making the poor women inaccessible to existing formal financial system. Because of these reasons of inaccessibility to institutional credit, the poor women are forced to depend on private lenders and easily get into debt trap. In view of special credit needs of the poor and women an alternative, innovative methods of finance were worked out to meet credit needs of poor and save them from debt trap. Micro finance or micro credit, one among credit tools, is deemed as the successful and sustainable method in the interests of the poor and as an effective tool for achieving the objectives of finance inclusion.

### What is Micro Credit / Finance

As microcredit assumes a key place in achieving the objective of financial inclusion, it is necessary to understand the term microcredit. Microcredit generally means the availability of credit facilities for a smaller amount for a shorter period, very frequently at an affordable rate of interest. Thus the term itself indicates credit needs of poor-smaller amounts, shorter duration, for a low rate of interest, more frequently.

NABARD in 1999 defined Microfinance as the provision of thrift, credit and other financial services and products of very small quantities to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and living standards. It refers to small-scale financial services of both credit and deposit that are provided to the people who farm or fish, operate small or Micro enterprises where goods are produced, recycled, repaired or, traded, and provide services. Provisions of financial services on a small scale to rural and urban poor, including self-employed.

Micro-finance also refers to small savings, credit, and insurance services extended to socially and economically disadvantaged segments of society. Micro-finance activities usually involve small loans for working capital and other petty trading purposes. Micro-finance is basically a poverty reduction institution in which Money lending is rationalized and reformed for the sustainability of both borrowers and lenders. It is treated as a development tool. At present a large part of Micro finance activity is confined to credit only. Small and marginal farmers, rural artisans, and economically weaker sections are the main customers of Micro-financial services. Women form a vast majority of the users of micro-credit and saving services. Microfinance has emerged to provide financial services to the Micro economy comprising small farmers, Micro entrepreneurs, the informal sector, women, and the poor, who were hitherto excluded by the formal financial system. Microfinance is viewed as an intervention to eradicate poverty by extending small loans and other financial services to the poor and thereby empowering them economically, socially, and politically.

#### ***Role of Self-Help Groups-SHG in Micro Credit***

In India despite persistent efforts, as in many developing countries, a large section of the poor population still could not get access to credit from the formal banking system and depends mainly upon private / Nonformal sources which use exploitative methods and fall finally into a debt trap. It is in this juncture the role of SHGs has been recognized in the inclusion of poor, small, marginal farmers, artisans, retailers, labors, etc in institutional financial services for micro-credit needs.

In a large part of the country, microfinance services are being provided through group-based system. This group-based system has the advantage of using peer pressure and collective responsibility that can be used as social collateral for availing financial services from organized / formal financial institutions. Generally, poor individuals who possess no physical assets to offer as collateral for availing credit facilities are out of the orbit of institutional financial services. The emergence of group-based systems helped the poor make their way to institutional credit service systems for credit needs.

Let us attempt to have a brief idea about the Self-Help Groups origin, nature, and activities. The concept of SHG was introduced by the Dutch Social Welfare leader J.E.Dejongh. Promoting social welfare through self-help and cooperative action was recognized as a powerful instrument for empowering the poor. In the initial stage, SHGs were mainly concerned with social welfare mutual aid, and assistance to fellow members. At present, the SHGs cover a variety of activities including economic upliftment. The SHGs are no more localized but have many extended linkages at national and international levels.

The SHGs formed by men and women have some common characteristics. The members of the SHG have the same socioeconomic and ethnic background, common interests, support from NGOs and have an environment for development in terms of infrastructure and linkages. It is these common features that made the SHGs successful in their activities. By and large, the SHG will be an informal group. However, the groups can also register themselves under the Societies Registration Act, the State Co-operative Act, or a partnership Firm Act. Self-Help Groups have emerged as the most effective mechanism for the delivery of microfinance services to the

poor, particularly to women. The range of financial services may include products such as deposits, loans, money transfers, and insurance. In the recent past, there has been a rapid emergence of Self-Help Groups and most of them have achieved considerable success in providing micro-credit facilities to their members through bank linkage. As a policy, India has recognized the importance of SHGs in developing microcredit. As per the directions of the Government of India, NABARD and other commercial banks have also recognized SHGs as their members.

#### ***Advantages of SHGs***

Many studies proved that SHGs as an instrument of delivering micro-credit to their members through linkage with banks and other financial institutions have many advantages. Some of them can be summarized as follow:

1. The members of SHGs develop the habit of small savings and thus become stakeholder in the group.
2. Those who find it difficult to approach the banks can get small loans from SHG without following many formalities.
3. The members can get multiple loans to meet both their production and consumption needs.
4. Recovery of loan is also assured as the group members have a stake in the SHG finance.
5. The members of SHG are poor and most of them are illiterate too. They need to face the cumbersome formalities of the bank. But through SHG the credit facility can be brought to the doorstep of the poor without any lengthy formalities.
6. Bank coverage can be expanded tremendously by SHGs without extra cost and effort.

#### ***Findings of the study***

A careful examination of the micro-credit services and the role played by SHGs in expanding credit facilities to the poor brings some notable points to one's mind.

- Entry of private profit-making financial institutions to Micro financial services which have a prime profit motive than social desirability.
- Micro Finance Institutions (MFIs) resorted to coercive practices in recovering of loans.
- MFIs charged high-interest rates to satisfy their shareholders than borrowers.
- There is a high difference between the cost of funds and the rate of interest.
- Competition among MFIs led to multiple lending and thereby debt traps.
- SHGs are successful in the assured recovery of loans rather than creating awareness among their members for appropriate utilization of funds.
- Easy accessibility to credit services led to multiple and overborrowing at higher interest rates for consumption / unproductive purposes rather than income-generating purposes.
- Some MFIs abetted suicides by coercive recovery practices and threats.
- Private MFIs utilized SHGs more in expanding their network rapidly than PSU banks and other financial institutions.
- Credit extended by modern MFIs has not been proven to be cheaper than that extended by private money lenders.

- Some SHGs have become self exploiting rather than to become self-empowering.

## CONCLUSION

In view of the credit needs of poor women and their poor creditworthiness, accessibility to financial services in general and micro financial services is indispensable. The role that SHGs assume to play is significant in expanding micro credit facilities among poor. The emergence of micro financial services system and the entry of SHGs into the area of financial services and economic upliftment of poor women have paved new way in eradicating poverty and empowering of poor women to some extent despite some lapses. For effective desirable results, functioning and performance of micro finance institutes and the role of SHGs need to properly monitored and regulated. Increasing credit worthiness of poor by employment and income generating programs and integration of related schemes aimed at empowering poor women are necessary for achieving inclusive growth and sustainable Micro credit services.

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