MICROFINANCE AND CAPACITY BUILDING OF RURAL POOR: PROSPECTS AND CHALLENGES

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Microfinance is a product of developmental experiments that have been tested by the policy makers throughout the globe. It is thus an emerging and yet experimental and less understood phenomenon that opens the doors of capital to the individuals who are excluded from mainstream financial institutions. It presents a new vision for financial arrangement that can potentially stimulate economic growth in the developing countries. International development discourse is now intimately linked with Millennium Development Goals (MDGs), the holistic goals of eradicating poverty and microfinance is firmly linked with this goal.

Microfinance as A Rural Credit Policy

Rural credit policy through financial institutions has a long history, but has gained currency in the last few decades. Lending money to someone and borrowing from others is a long practice that people have been pursuing since times immemorial. The terms 'microcredit' or 'microfinance' are often used interchangeably in the context of developmental study. It was Gramin Bank of Bangladesh, which coined the term 'microcredit' in 1970s which eventually became popular in its next decade.

Microcredit is primarily different from formal bank credit, it is collateral free and its basic objective is to increase income at the local level through micro-entrepreneurial activities. Microfinance as we understand also bears the same connotation. It is a financial arrangement made by Microfinance Institutions (MFIs) for poor and low income groups. These institutions offer loans to unsalaried beneficiaries, taking no or little collateral. Here, lending of loan is linked with group approach, 'pre-loan savings requirement', repayment of loan in time as a guarantee of future loan instantly etc. Broadly speaking microfinance is thus, a movement that finances low income groups to enhance their income producing enterprises, build assets, increase the degree of consumptions, and to protect against risk factors like natural disaster, illness and so on worldwide. Microfinance is not only a credit oriented service it promotes habits of savings, insurance and money transfers.

Microfinance and Economic Inclusion

Microfinance acts as a remedy in at least two respects-- rural development and women empowerment. It is a means to empower the poor

and socially marginalised groups of the society, particularly women. With the introduction of Structural Adjustment Programmes leading to reforms of financial sectors in 1992 the banking sector gradually moves away from its social objectives adopting policies of abolishing concessional rate of interest, demanding collateral even from small farmers, and making large stipulated minimum balance compulsory for granting loans to small farmers. In short, the formal financial sector shifts its approach from 'mass banking' to 'super-class' banking. In recent periods, banking sector has witnessed revolutionary changes due to technological advancement, internet banking, online money transfer etc. What is true is that such access to sophisticated technology is restricted to a certain segment of the society. There is now a clear dividing line between two sections of the people, the middle and upper-middle class having an increased opportunity of personal financial access and significantly a large section of the society lacking the basic access to financial institutions. This leads to 'financial exclusion'. Microfinance has been considered as a move for creating the space for financial inclusion. It refers to process of ensuring access to financial sectors by mainstream institutions. It involves awareness creation on financial literacy, mobilisation of rural poor, micro-credit, and debt redemption, capacity building, livelihood loans, micro savings, creation of entrepreneurial capability and 'credit plus' services that might ultimately lead the goal of 'inclusive growth'.

With market globalisation taking strong roots throughout the globe, many people are forced to create some type of business for their mere subsistence. The tenacity and ambition of these forced entrepreneurs deserve admiration, but the unlikely condition is that many of them merely 'eking out hand-to mouth' for their subsistence because they lack necessary tools for success. A large percentage of people around the world work and lead their life through micro franchises. International Labour Organization has reported in 2002 that 72 per cent sub Saharan-African people operate within a growing informal economy. India is no exception to this situation. Unfortunately, increase of such unorganised sector does not equate to an increase to their income levels. Financial exclusion due to the lack of favourable rural credit policy is a barrier for organizing business enterprises among the socially disadvantaged groups. Financial services run by commercial banks in developing countries are often provided to upper income clients at the expense of the poor, women, rural inhabitants, the uneducated for high cost of administrative support and lower transaction sizes associated with these groups. Microfinance thus, might be a panacea for empowering the marginalized groups of the society. Various studies on micro finance have revealed the potentiality of increasing household income of poor households. Microfinance, it is hoped, in the long run may accumulate social and economic capital and push the socially and economically disadvantaged sections out of extreme poverty.

Microfinance for Microfranchise

Microfinance creates micro-franchise. Micro franchise as a concept is still in infancy, yet gaining currency all over the world to combat poverty. The idea is first coined by Stephen W. Gibson who established an academic school in Philippines that trained young men and women to be prospective entrepreneurs'. Franchising here refers to the systematisation and replication of the enterprise. Micro franchise refers to the social aspect of assisting the poor at the base of the economic pyramid. In a developing country, micro franchise addresses at least three core developmental problems that prevent people from being economically self-reliant.

Lack of jobs: Lack of sufficient employment opportunities are the features of most of the developing countries. In sub Saharan-African region 72 per cent population leads their life through informal economic activities. In Latin America it is 51 per cent and in Asia it is 65 per cent. As access to job is limited, most people in these regions are engaged in contract labour, selling their time and energy in the labour market with little benefits.

Lack of skills: Creativity, knowledge of technology, resources and psychological profile needed to be successful entrepreneurs are uncommon traits to human beings. As a result many people who do start business ultimately fail or barely survive on subsistence level. Most of the people in developing countries do not

possess basic knowledge of entrepreneurship such as record keeping, inventory management techniques etc.

Microfinance and Women Empowerment

Worldwide proliferation of microfinance institutions has ultimately culminated in the UN declaration of 2005 as the Year of Microfinance. According to the Stanford Journal of Microfinance, there existed 3,316 verifiable microcredit institutions, providing credit to 133,030,913 clients worldwide, by December 2006 of which 92,922,574 were from the poorest strata of the society and 82.2 per cent were women.

In India greater emphasis is being placed on the development of women as an entrepreneur and their active participation in the developmental process. Women can be a successful entrepreneur if a congenial environment is created for them. The business expertise of women has already been proved by several studies on rural women. They have been found better and methodical in credit utilisation than men, but lack of access to assets makes them more vulnerable to poverty than men. Several women organisations have been seriously working for the economic betterment of women for decades. These are some examples:

- Sri Mahila Griha Udyog Lijjat Papad (1959).
- Self-Employed Women Association (SEWA) established in 1972.
- The Working Women's Forum (WWF) established in 1978.
- Rastriya Mahila Kosh,(RMK) a government organization established in 1993.
- Mann Deshi Mahila Sahakari Bank Ltd. (MDMSB) in 1997.

However, there is no magic bullet that can change the structural barriers on women overnight. Still, majority of women are poor, culture-bound, marginalized, disempowered and alienated. Some major problems women entrepreneurs generally face as are as follows:-

- **Patriarchy:** Patriarchal domination is a major hurdle for bringing equity between men and women on the question of entrepreneurship
- **Financial:** Women do not possess adequate financial resources and working capital. Their access to credit is limited. In India, in many cases women do not possess property rights and the extent of their accumulation of wealth or so called bank balance is very much disappointing. In most cases, male members of their family decline to invest in such ventures which are run by the women members perceiving the consequences of their inability to run the business successfully.
- **Marketing:** Women often find it difficult to market their finished products. They have to depend on broker or middlemen for marketing their products who in turn pocket a good amount of profit. Marketing in present day global economy has become complex and competitive. Any product to be popular in an open and competitive market needs proper advertisement that involves a huge financial arrangements and the most unlikely situation is that women entrepreneurs are not able to bear this burden.

Microfinance, however, is not an end of all ills, but a beginning of a new era. If handled judiciously, it can be an effective means of eradicating poverty. Microfinance must be linked with the objectives of capacity building, otherwise the funds are likely to be used in consumptions and in procurement of non productive assets. Government should provide skill development training to the prospective entrepreneurs that will motivate the poor to organise business, because the poor do not work, not because he is lazy, but because he has no access to capital.

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