

# Role of micro-finance in poverty alleviation by fostering institutionalized entrepreneurship in rural India

## Introduction

Microfinance programs provide access to small loans to the 'Poor' and 'Very Poor'. It starts a virtuous cycle of production to generate lasting capital through entrepreneurship to remove poverty at the household level. While microfinance was started in disparate shapes and forms globally since mid the twentieth century, it graduated to be a new poverty alleviation paradigm with the exemplary success of Grameen Bank, SEWA, ACCION during the 1980s and 1990s. Women, in particular women in rural areas, were found to be the bulwark of poverty alleviation programs because of the fact that 70% of global poor are women and their benefits mean well-being at the household level (Garikipati, 2008; Swain & Wallentin, 2009). Scope and applicability of Microfinance have been enhanced beyond poverty alleviation by Mayoux (2000) by exploring other potential paradigms e.g. financial self-sustainability which focuses on women entrepreneurship and feminist empowerment leading to gender equality. For the purpose of this paper, we will focus on two paradigms of microfinance namely 'poverty reduction and 'Financial Self-sustainability' (Mayoux, 2000) in the context of SEWA's (Self Employed Women's Association in Gujarat, India) interventions. This case study would also be evaluated in the light of contemporary development theories.

The project analyzed in this paper SEWA was started in 1971 at the point of convergence of labor movement (initiated for rights of poor women working in the disorganized sector ), cooperative movement (To ensure women's financial sustainability), and the women's movement (Gender equality). SEWA has focused on the issues primarily unaddressed by labor unions, legislation, and policies. To address women's multi-dimensional vulnerability, SEWA adopted a multi-pronged approach to tackle the issues at hand which ranged from training and skilling poor women (majority of which belonged to rural areas) to participate in the production process to open the cooperative bank for financial self-sustainability by borrowing to enhance production. SEWA has numerous cooperatives with more than 130,000 members across SEWA bank for rural poor, dairy, artisan and trading etc. It also formed rural producer's groups to organize the rural poor women to leverage benefits from existing government microloan facilities and social security organizations. SEWA health cooperative reaches to approx. 75,000 self-employed members and broader families. Across all SEWA initiatives, it is estimated that SEWA has touched more than a million lives in rural Gujarat directly and manifold indirectly.

## Critical appreciation of SEWA case study by different sources

As per Blaxall (2004, World Bank report) SEWA has implemented a model wherein collective bargaining and campaigning work to member's advantaged in creating alternative (or additional) employment opportunities. SEWA has given its members, which are typically

poor rural women, access to the market, uprooted intermediation and helped its members in re-skilling. Somewhat contrary to typical microfinance members, SEWA members have an access to banking facilities with in-built flexibility to lend and support by building up deposits. On the social dimension of Malhotra & Schuler's (2005) women empowerment framework, SEWA provides capacity-building skills and independence, developing their leadership and confidence. Specifically, in the area of microfinance, SEWA enables its members by setting up a cooperative bank that claims 96% of the loan recovery rate. To leverage the mobile revolution in India, SEWA Bank has started mobile banking services to provide access to finance even easier. SEWA members are encouraged to save money along with paying the borrowed amount back which typically is at 20% per annum (which should be seen in the context of 6%-8% annualized inflation). SEWA bank also provides loans for culturally important but economically unproductive reasons e.g. loan to marry the daughter etc. to avoid their members taking loans on the exorbitant interest rate which exacerbates their economic well-being further.

Per research details provided by Aggarwal (2004) in the World Bank report, SEWA cooperative bank focuses on providing credit to enhance economic, productivity, and consumptive levels of women and their household by bringing them into the income generation cycle, provide technical and managerial support across the product life cycle from production to sale of goods, provide small savings mechanism and platform to avoid future vulnerabilities, etc. As per Martha Chen (Profiles of SEWA membership), "SEWA members tend to be from the poorest and most disadvantaged communities." At least half the women, belonging to the SEWA network, survive at \$1 a day. The majority of them have compounded disadvantages e.g. coming from scheduled classes or tribes (amongst the most economically backward and demographically underprivileged) and rural backgrounds with no constitutional rights, these women need continued external support to build their independent identities. To make illiterate and unskilled rural women economically productive, SEWA adopted a three-pronged approach including professional training for occupational stickiness, mobilizing the women to protect them from local renting (illegitimately) agencies e.g. bribing police not to harass, being underpaid by the contractor, etc. and provide a platform for regular employment. "Three-quarters of SEWA members reported that their employment and income were more regular than in the past. Much of this attributed to child-care services and housing improvements e.g. availability of electricity, water" (This outcome pertains to urban women though). Even in the case of rural areas, the availability of basic facilities (e.g. water) meant more disposable time available for productive purposes. It was found that approximately half of SEWA members who borrowed from SEWA bank for income generation purposes enhanced their income. Aggarwal (2005) notes that despite all the interventions as explained above, the majority of the women could not beat the poverty trap and remain in abject poverty. It was attributed to differentiated roles i.e. gender trap (from men) e.g. men selling goods on push-cart while women carried big baskets on their head to sell wares.

## **Academic Theories**

From an economic function standpoint, a community's productivity is a function of human capital and physical capital (including technology). For a community to advance from the subsistence stage, it needs to ensure that it is creating capital at a higher rate than required

to sustain consumption. From a development economics standpoint, energy deficit signifies a scenario where energy consumed to support consumption (Fetching water from distant places, subsistence farming) does not accumulate surplus production for future use (Elahi and Danopoulos, 2004). Production surplus is critical to managing the negative productivity shocks. 'Poverty Traps' occur when the audience in a study is subjected to a vicious subsistence cycle needing repeated external assistance to survive. Poverty traps pertain to health, nutrition, education, hygiene, empowerment, etc. which keep reinforcing the energy deficit (Adams and Raymond, 2008; McKenzie and Woodruff, 2006). Varghese (2005) presents micro-entrepreneurship as the way to break the poverty trap and build a production surplus.

Approaching this discussion from a development theory standpoint, Jeffrey Sachs, in his modernization theory, argues that poverty is an outcome of a 'Trap' and needs external fiscal stimulus to lift the under-privileged at individual and collective level (End of Poverty, 2005). Paul Collier argued to focus assistance on the bottom billion for poverty alleviation. Referring to David Booth and contemporary trends in development space, generic development frameworks are being replaced by local and adaptive solutions. Also, in development, poor is to be treated as a collective action problem with arm's length support.

While the SEWA case study seems to align with modernization theory, it evolves and matures with the latter (as above) wherein localized and contextual solutions were built based recipient's needs.

## **Counter View & Evidence**

While most believed that there is a direct positive relationship between Microfinance and enhanced capital accumulation amongst poor women, there were not many statistically thorough empirical types of research to prove this observation. In the last 3-5 years there are quite a few randomized sample surveys have taken place including India, Morocco, and Bosnia, etc. Banerjee et. al (2012) analyzed the use of microloans in Hyderabad (Andhra Pradesh, India) over three years. A comparative study was conducted of 104 MFI participants (SPANDAN's disbursement of microfinance loans) and non-participants with outcomes of only 38% of households borrowed from an MFI in a category with high propensity to use microfinance. Reasons for poor MFI loan uptake could be high-interest rate barrier (24% per annum) or inflexibility in contract terms compared to informal channels (e.g. relatives) despite the embarrassment of taking loans from relatives (Collins, Morduch, Rutherford, and Ruthven 2009). While this criticism is not related to SEWA in any way but it emanates from the detailed analysis of a similar audience

## **Conclusion**

Most microfinance experts in the context of microfinance helping in capital formation by entrepreneurial intervention by rural women; whether approaching from the strong proponent or the other camp, agree to the fact that it can't deliver poverty alleviation alone. In the words of Sam Harris (Director, Microcredit summit campaign), microfinance cannot solve problem of poverty by itself. Dr. Yunus (2003) emphasized "Micro-credit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. Combined with other innovative programs that unleash people's potential, micro-credit is an essential tool in our search for a poverty-free world". While microfinance

encourages rural women to undertake entrepreneurial activity but it doesn't necessarily take them out of the poverty trap. Keeping in view that women entrepreneurship is not just about access to loans but goes well beyond and explores its adjacency with empowerment, gender equality, etc. Microfinance is a pre-condition to alleviate poverty but not an adequate condition to eliminate it. The above-mentioned conclusion gets validated by the SEWA case study as SEWA employed numerous means, microfinance being one of them, to enhance the wellbeing of poor women in rural space by making them productive. In my view, SEWA has achieved limited success in pulling a large section of the Poor out of the abject poverty trap but got tremendous outcomes in empowering women in many ways. SEWA reinforces the development theories and demonstrates evolving working models in sync with local requirements.

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